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Executive Power and the Organization of Global Capitalism from Bretton Woods to Neoliberalism

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ABSTRACT OF THE DISSERTATION

Executive Power and the Organization of Global Capitalism from Bretton Woods to Global Neoliberalism

By

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How do we explain institutional changes in the organization of global capitalism? Empirically, this research applies a historical institutional analysis to two classic questions of modern political economy: what caused the breakdown of the postwar "Bretton Woods" economic system, and what caused the development of neoliberal globalization? This latter contemporary state of affairs is characterized by the dominance of finance in global economic activity, expansion of markets and private property into wider areas of society, and liberalized flows of money, capital, and products across international borders. I investigate the formation of these institutions through direct archival analysis of United States Government policy, and modern institutionalist theory. My primary finding is that the U.S.-led breakdown of Bretton Woods was neither economic determined nor politically designed, but rather was a choice contingent upon international negotiations that took place within the International Monetary Fund (IMF). Further, the analysis finds that the U.S. Executive Branch consciously used perceptions of an international monetary crisis to shield their political decision from scrutiny. This explains why common understandings of this case view it as economically determined, and I argue that economic crises more generally can be deployed as political constructs in the service of undemocratic policy change. Lastly, I employ the main currents of research on contemporary neoliberalism to examine how different explanations intersect, explaining the reshaping of the IMF after its Bretton Woods mandate was removed. I find that U.S. action toward the IMF established private finance as a central actor in the global economy, and the IMF as a lever of policy change to ensure the rights of private banks.

CHAPTER ONE

Introduction

The three decades leading up to the global economic crisis of the mid-2000s were a time of rapid economic change, marked by a series of crises and innovations that have come to form the basis of what we think of as global neoliberalism today. Liberalized capital flows and the increasing financialization of capitalism's core activities have resulted in increased concentrations of income, political power, and capital itself in increasingly narrow parts of society. At the same time, the traditional fiscal and monetary policy tools associated with national macroeconomic governance have been transformed as the transnational corporation and private investor have increasingly become the centers of gravity in global capitalism.

For some time, particularly after the catastrophic financial crisis of the late 2000s, social scientists were challenged to explain the stability of neoliberal political economies in spite of the social crises they have created. Rather than a coup to the policymaking common sense that brought us to economic crisis, the crisis was met with an entrenchment of these same policies. Fiscal austerity has corresponded to ever-lower corporate tax rates and shockingly little attempts to grapple with the financial economy through national-level regulatory changes or fiscal policy. Monetary authorities have allowed cheap credit to be used most perversely to recapitalize financial institutions and dump corporate profits into more financial speculation. This maintenance of the status quo in economic governance has largely been attributed to the lack of organized political opposition, particularly from labor, and the coherence of neoliberal ideology within our political institutions.

At the level of global institutions, however, the question of persistent orthodoxy has become more complex. After a decade, it is now hard to deny that the forms of political order upholding contemporary capitalism are in a sustained and intensifying crisis. While the reactionary movements that have risen to power in most parts of the world have largely served to fortify the interests of private capital in its increasingly concentrated and financialized forms, our contemporary political instability raises the question of how the institutions of global economic governance might change, rather than why they haven't. *When do international economic institutions break down?* A premise of this work is that decisions on these matters are left to a very small number of mostly unelected officials. *How do executive powers justify their actions when they disrupt the status quo?* And most significantly, *how do forms of institutional order emerge from the dissolution of a prior one?*

In order to address these questions, we can look to how the particular institutions and practices of contemporary global capitalism emerged from the breakdown of the previous regime. Several key features of capitalism we identify with the modern era are the norms of fiscal austerity and liberal credit at the national level, along with heavily leveraged finance driving large parts of the global economy. These developments have come together with a significant increase in the mobility of capital. It is important to remember that during the post-war "Bretton Woods" era, industrialized countries operated their economies with capital controls, or restrictions on the outflow of capital beyond the nation's borders.

The breakdown of this system allowed for today's thoroughly globalized capital markets, and this had much to do with the liberalization of currencies internationally. Whereas up until the early 1970s, currencies were fixed in relation to each other, in the modern era they have been allowed to fluctuate and therefore subject to large movements of private capital across borders.

In 1992, George Soros infamously took a roughly $10 billion position against the British Pound, forcing a devaluation that profited Soros at least a billion dollars from his short sale. Soros was similarly implicated in the Asian currency crises of 1997. In other instances, withdrawals of investment capital, or "capital flight", have demonstrated the power of private international corporations to dramatically impact the exchange rate of a sovereign country.

As events like these have raised questions about the empowerment of private and international actors over sovereign governments, liberalized currency markets have been at the center of concern. While Soros' very public embarrassment of the Bank of England sparked an important conversation on the topic, this was hardly an unprecedented event. In addition to private individuals like Soros, major banks, multinational corporations, as well as sovereign governments had been making similar use of international currency markets since the 1970s.

Like Soros, these actors have often operated by in fact contributing to exchange rate volatility in order to profit, and this had been going on for at least two decades before the infamous Soros maneuver. In the 1970s, private banks became more heavily invested in developing economies, and increasingly leveraged on foreign currency positions. Flows of investment capital into and out of developing economies took on a more speculative character during this time, as international investments rapidly increased in volume and volatility. In turn, just as the "neoliberal" era has been marked by the rise of international monetary profiteers, there have been major losers as well. The 1970s are well known for the acceleration of fiscal crises in the developing world, crises that were often exacerbated by speculative capital flight from the looming prospect of currency devaluation. This pattern was of course marked by the accumulation of ever-greater levels of foreign debt, held significantly by the International Monetary Fund (IMF), and the increased use of "conditionality" in IMF loans. The 1970s,

therefore, is well documented as a period of major upheaval in the international economy, centering significantly on international currency markets. The central question this research addresses is why the post-war economic system broke down, how it was presented, and how it led to such broad institutional transformation globally. In so doing, it aims to contribute a more general understanding of the processes by which institutional regimes destabilize and transform.

The Breakdown of Postwar Global Economic Institutions

The critical turning point in our shift toward the contemporary freedom enjoyed by global capital occurred in 1971, specifically August the 15th. This date, or at least the brief period leading up to it, is generally treated with little significance other than historical trivia. It was on that day that President Nixon announced a decision to suspend the convertibility of U.S. dollars to gold, which had held together the Bretton Woods international monetary system since World War II. Within months, the world's major currencies no longer remained fixed to the dollar, and the private markets for currency were suddenly dynamic institutions full of large volumes of speculative exchange, subject to significant and often drastic fluctuations based on the increased volumes of capital that were increasingly free to move across international borders. By the mid-1970s, in the wake of the first global oil price shock, a large part of the world was embroiled in a series of mounting crises, as patterns of short-term deficits rippled into plummeting exchange rates through huge flows of capital. Without the freedom to intervene effectively in currency markets or restrict capital movements to arrest these market volatile reactions, national governments were forced to address short-term deficits through austerity – fiscal contraction, and often major reorganizations of state, economy and society. Or so the familiar story goes. The reader may understandably presume that this chronological sequence from the breakdown of

fixed exchange rates to major global change, of the sort we call neoliberalism, followed a structural causal logic. Others may object that this major institutional change only came about later through a generational shift in how the world views and navigates the economic sphere per se. This important question will be taken up later in this analysis. But first, we should begin with the structural logic typically presented for the breakdown of the Bretton Woods era in the first place. This should be understood both as a reading of the dominant literature on this critical case, and as the context within which the present analysis departs from it.

The Dissolution of Bretton Woods in Structural Context

Why should we care about the Nixon Administration's decision to "close the gold window"? This was more than just technical change in how the global economy operates by liberalizing the world's exchange rates. Throughout the Bretton Woods era, fixed exchange rates meant significant macroeconomic stability because investments or trade contracts had crucial certainty in their future value, since the exchange rates could be largely counted on as a constant. Since this whole system functioned on the basis of dollar-gold convertibility at the U.S. Treasury, Nixon's closing of the gold window meant removing the lynchpin of the Bretton Woods system, leaving no institutional structure to assure exchange rate stability, which rapidly broke down. Liberalized exchange rates allowed, or led to, several key transformations in the global economy, not least of which was the recurrence of foreign exchange volatility, a major boom in international private bank lending, and unsustainable sovereign debt. With that came "shock therapy", and fiscal austerity policies mandated by the IMF, particularly in the developing economies of the world (Kentikelenis et al. 2016). While these latter economic developments are well documented (Stiglitz 2002, Hickson 2005, Babb 2005, Panitch and

Gindin 2012), they are all dependent on the underlying system of liberalized exchange rates, which was the result of the closing of the gold window.

Literature on this case points to a structural problem in the international monetary system for causal explanation. Many economists at that time brought this to attention, Robert Triffin perhaps most famously. The "Triffin Dilemma", as it came to be known, pointed out that the issuers of the international reserve currency, the U.S., could not sustainably run deficits under a system of fixed exchange rates. This identifies the primary structural economic problem, which is the relationship between the U.S. balance of payments position and its supply of gold, necessary to maintain the "peg" between the dollar and gold at a fixed price. Growing American deficits and increasing speculative flows of dollars into Europe continuously reduced the U.S. reserves of gold. Political pressure, largely in the form of French gold purchases, contributed toward this as well (Block 1977, Helleiner 1994). Standard history of this case extrapolates from these observations of economic structural trends to argue that this structural pressure critically threatened the viability of the Bretton Woods system, forcing, inevitably, the change to flexible exchange rates (Eichengreen 2008, Helleiner 1994).

Furthermore, as international flows of capital increased, currency markets became unstable as the system of fixed exchange rates created distortions in these markets (Eichengreen 2008). Most proximally, in May of 1971, European currency markets were forced to close. West Germany decided to float its currency, as did the Netherlands. Switzerland and Austria revalued their currencies. This put further pressure on the U.S. gold supply. Events of May 1971 are commonly referred to as the tipping point at which the Nixon Administration was forced to take action and abandon the no-longer-structurally-tenable system of fixed rates, by closing the gold window (Eichengreen 2008; Helleiner 1994).

The Call for Sociological Approaches

As perhaps the most impactful moment of change in recent economic history, this case has received a great deal of attention in social science, but rarely from a detailed actor – centric perspective. One notable aspect of this case is that it did not begin by a US initiative to close the gold window. Rather, it was the result of several years of deliberation within the US state, and multilateral international negotiation over *reform* to the Bretton Woods system. This makes the outcome of radical institutional displacement a puzzle to be explained. A classified memo from Treasury Undersecretary Paul Volcker reveals that monetary crisis in 1971 did not necessitate closing the gold window, but rather *allowed* it. Doing nothing, or taking corrective action to these drains on the gold supply was viewed as a viable course of action, but the ultimate choice was rather to "permit, and even encourage, a progressive disintegration of the structure of the fixed rates with the objective of seeking far-ranging reforms"[1].

Within a day of this memo from Volcker, an Eyes-Only Presidential memo was issued coordinating strategy across Treasury, State and Defense along the lines of this option, commenting that "it is only in an atmosphere of crisis and disturbance that…important changes in the policies of European countries and Japan can be brought about…to begin the transition to a different system, using the…drains on our gold and other reserves…as a justification."[2] This preview of the findings presented throughout this analysis suggests a novel interpretation for the breakdown of Bretton Woods, as well as the need for a very different theoretical approach to such fundamental questions of reproduction and change in the institutions of global capitalism. Toward these ends, this dissertation is organized around three central questions:

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[1] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 5/7/71

[2] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 2/22/71

1) *Why, when, and how do the organizing institutions of global capitalism change?* The 1971 displacement of the international monetary system is treated as a study in the origin of today's primacy of financial capital in the global economy, and an archival research site to examine broad social forces that may variously explain basic reorganizations of global capitalism.

2) *How do we understand economic crisis as a mode of policy change?* Conventional explanations for the dissolution of postwar capitalism focus on structural economic crisis as the most proximal cause, and the Nixon Administration itself presented its decision in this way. This study interrogates this thesis with archival evidence in order to introduce and sort through alternative explanations in social science that treat economic crisis itself as a social and political construct.

3) *How do failures in key institution lead to a broader reorganization of a novel institutional regime?*

This study applies various explanations for the development of global neoliberalism for the case of reform to the International Monetary Fund (IMF) during the 1970s. This was the organization most directly scuttled in the rejection of Bretton Woods economic governance, and yet it has rightly come to be viewed as a central organization in the assertion of financial power and norms of neoliberal governance globally. The study aims to resolve how institutional change can lead to the predominance of certain class factions within a political economy, rather than simply responding to the needs of an existing dominant group.

The empirical analysis has three overall objectives: 1) to trace the *process* leading from multilateral reform of the international monetary system to comprehensive institutional change; 2) to specify a mechanism by which economic policy decisions capitalize on public perceptions

of "crisis"; and 3) to understand how power distribution, ideology, and intra-organizational politics led to neoliberal transformation through and within the IMF. Through these three objectives, the dissertation contributes a novel account of the formation of contemporary global capitalism, in addition to the broader contribution described above.

Central Problems and Useful Explanations

Institutional Change and the Organization of Global Capitalism

Following Block (1977), this work addresses the fundamental issue of how international economic institutions determine the distribution of power and resources across national states. Block's work on the dynamics of the Bretton Woods system itself powerfully shows how the institutional rules of global economy were manipulated in conflict over the distribution of resources through international monetary exchange. The present work picks up this analysis for the contemporary "neoliberal" era, beginning from the observation that this era has been marked by the "return to hegemony of the financial fraction of ruling classes" (Dumenil & Levy 2011). Regardless of how we define neoliberalism among ideology, practice, and politics, the period after the dissolution of Bretton Woods has been marked by arrangements that favor the liberty of an increasingly globalized and concentrated financial capital.

This starting point requires several comments. First, the massive increase in the size and political power of globally active financial capital is treated as an institutional outcome to be explained, rather than an explanation per se. I am interested in the more general mechanisms by which global institutions evolve or disjoin, not by a single design or causal force but as a complex interaction between contingent decisions, practices, interests and ideologies. Again, the

complex task here is to explain particular instances and develop broader theories of rapid reorganization of global economic governance, a rare but critical thing to understand.

Current theories of institutional change offer a useful focus on politically-mediated change from within institutions, an evolutionary perspective, but do not consider how changes in policymaking strategy affect outcomes of change, and do not adequately explain cases of *rapid, broad institutional regime changes*. The end of Bretton Woods is a very high profile case of such a change, where the existing global economic order broke down and was replaced by another. Scholarship on this question has progressed considerably by addressing a common criticism of institutional theory- that it overly predicts stasis within institutions, relying on "exogenous shocks" to explain change (Mahoney & Thelen 2010; Streeck & Thelen 2005). Scholars have addressed this through *endogenous* and *gradual* theories of change that focus on power distribution and the structure of institutional rules as mediators of change from within institutions (see esp. Mahoney & Thelen 2010; Chorev 2007; Clemens & Cook 1998).

Proponents of the endogenous model of change offer the most promising theories to explain cases like the end of Bretton Woods, but closely associate endogeneity with gradual processes of change, leaving little room to explain rapid institutional displacement without recourse to exogenous factors. These scholars have usefully pointed out that institutional structures are rarely all-encompassing, but rather exist alongside other institutional rules that imply different lines of action. This "heterogeneity" within institutions presents opportunities for actors to innovate by using policy strategies that were "suspended or suppressed" (Streeck & Thelen 2005, 21). Institutions do not reproduce themselves automatically, but regularly contain contradictions and ambiguity that harbors the potential for change (Wright 2010).

A corollary of this perspective is that more uniform institutional arrangements are more prone to exogenous shock (Clemens & Cook 1999). Mahoney & Thelen (2010) have articulated a framework that explains forms of institutional change by reference to this uniformity, as well as power distribution within an institutional structure. Their framework is a typology based on "veto possibilities", the ability of other institutional actors to block change initiatives, and "discretion", the ability of change agents to reinterpret or ignore the rules (Mahoney & Thelen 2010). A key aspect of this case as revealed by the data used in the dissertation is that the United states initially rejected closing the gold window, and approached international monetary reform multilaterally through the established negotiating venues within the IMF. The puzzle to be explained is the U.S. decision to opt for a unilateral strategy; the choice of a policy option with lower veto possibility led to a much more radical outcome than our theories would predict.

Theories of significant "displacement" of institutional regimes may be generally characterized by diffuse and somewhat gradual mechanisms of change. Streeck & Thelen (2005) identify a primary mechanism of institutional displacement as "defection", where actors gradually migrate to a new paradigm. This can happen through "invasion", where the new paradigm is imported into an existing institutional arrangement, or endogenously through shifts in the environment that favor existing actors who prefer a new paradigm (Streeck & Thelen 2005). Hall (1993) traced out the process of neoliberalization in Britain, presenting this paradigm shift as a process of "social learning", where the new paradigm was arrived at through a series of policy experimentations and failures. Hall identifies this type of paradigm shift as "third order change", which should depend on power distribution, but also "shifts in the locus of authority over policy" (Hall 1993: 280).

In all of these explanations, institutional displacement occurs due to changes in the environment. This could be the rising influence of extra-state actors with a desire for change, changes in power distribution or decision-making structure, or a series of policy innovations in response to technical problems, "driven by challenges to and changes in…policymaking and production regimes" (Campbell & Pedersen 2014, 25). This research is useful in explaining the development of neoliberal policy, as well as paradigm shift more generally, but challenges the assumptions of truly "endogenous" institutional displacement. Is it possible to have rapid institutional displacement without any of the environmental shifts identified by this literature, or an exogenous "shock"? The standard explanation for this type of change rests on very structural approaches, which I characterize as neoclassical and Marxian, in Chapter 2. In order to perform that analysis we should first understand sociological critiques of classical left political economy and economic perspectives.

Alternative approaches to structural change

While the economics of Bretton Woods are not in dispute here, the key question is whether this structural logic adequately explains Nixon's behavior and the subsequent reshaping of global economic order. Generally, sociological explanations have pushed back heavily against the predominance of economic explanations of global institutional change. The decision to close the gold window also relates to the long-term concern with maintaining the dollar as the international reserve currency. While the Bretton Woods period can be referred to as a "gold standard", American policymakers and later scholars accurately referred to it as a de facto Dollar standard. While global currencies were formally valued relative to gold, they were effectively valued relative to the dollar due to its function as the world's liquidity pool. This "monetary

dominance"[3] allowed the U.S. Treasury significant leeway in domestic policy, and an extraordinary pool of credit to finance its global military apparatus (Eichengreen 2008).

Indeed, politics and political interests are often considered central to policy making by political sociologists and political economists. From this power-political perspective, political struggles and the pursuit of material and political interests may determine policy, independently of allocative efficiency. Lindblom (1977) argued that private businesses assume a privileged position vis-à-vis the state by virtue of their social role. As we will see in the case of international monetary reform, the interests of American multinationals are taken up by the state through an alignment of interests, rather than direct collusion. Roy (1999) showed that the development of the private corporation itself was the result of power-political battles, rather than an efficient outcome. On the subject of the international monetary system, Eichengreen (2011) has argued powerfully that the "exorbitant privilege" of the American Dollar's status as the international reserve currency derived from the international political and military power of the United States, rather than vice versa.

Constructivist arguments have shown that actors' immersion in ideational regimes (Campbell 1998; Campbell and Pedersen 2015) may influence policy outside of efficiency concerns. Indeed, scholars point out that policy makers hold taken-for-granted world views, or cognitive paradigms, which limit the range of policy choices that they are likely to consider when formulating economic policy. They carry with them conceptions of cause and effect relationships between certain strategies and their outcomes that shape the kinds of policy alternatives that they are likely to perceive as plausible and/or useful. These ideas reflect national political cultures and thus vary across nations and over time (Hall 1989, 1993; Dobbin 1994;

[3] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 5/7/71

Block 1996, 1990; Heilbroner and Milberg 1995, Berman 1998, McNamara 1998).

Several scholars have also paid particular attention to the influence of economic knowledge on economic policy making. Babb (2001) links the understanding of the economic development in Mexico to the presence of a technocracy of economists trained at the leading U.S. educational institutions. Fourcade's (2009) work on the construction of economic knowledge in the U.S., France and U.K. also suggests that economists in different nations favor different policy answers to similar institutional problems. Block (1996) argues that economists advocating for the power of free markets have been quite strong in the U.S., resulting in a general tendency to view the state as having a negative influence on the economy.

Ideas consolidated in policies also have *path-dependent effects* on future action (Steinmo et al. 1992, Thelen 1999), an explanation that will be taken up in Chapters 4 and 5. This means that once institutionalized, they constrain the range of institutional alternatives from which actors choose, locking actors into certain courses of action which may be difficult to reverse (North 1990). Prasad (2006) has emphasized the role of path dependent institutions as legacies of political structures that may create backlash. Arguing why France and Germany did not embrace neoliberal policies as much as the U.S. and the U.K., Prasad points to how adversarial political structures in the latter two countries institutionalized the conflict between the Left and the Right in the political system, providing incentives to political actors to manufacture resentment over redistributive policies for the sake of political gains, leveraging more support for neoliberal economic policies.

Global Neoliberalism and the International Monetary Fund

This notion of path dependence may explain a great deal about the transition from Bretton Woods-era state-managed capitalism to the much more liberal contemporary regime, which will be explored through the case of IMF reform during the disorder that followed 1971. Closing the gold window was not just a foundation for international economic liberalization since 1971, but also undermined the original purpose of the IMF. Created by international agreement at the Bretton Woods conference in 1945, the role of the IMF largely concerned the relationship between the United States and other major powers in the post-war period. The IMF Articles of Agreement established a mandate "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation."[4] The U.S. action to close the gold window precluded all of these functions, as it introduced volatility in exchange rates in pursuit of precisely such a competitive exchange depreciation. What, then, became of the IMF? It is well established that by the late 1970s, and certainly beyond, the IMF was primarily an agent of lending to developing countries, which it used to leverage liberalization of economic policy in those countries (Babb 2005). However, the processes connecting this phase of the IMF's existence to the end of Bretton Woods has not been clearly established.

Contemporary research on the institutional bases of global neoliberalism focuses primarily on the normative and ideological changes that have solidified this policy paradigm. Indeed, it is a striking feature of the contemporary economic policy paradigm that market fundamentalist ideas are so hegemonic (Block & Somers 2014). The origins of global neoliberalism are therefore traced, typically, to the 1980s when the governments of Reagan and Thatcher came to power with new "supply-side" economic discourse (Kentikelenis & Babb

[4] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/16/70

2019; Hall 1993), followed by the 1990s when the "Washington Consensus" formalized a neoliberal hegemony over global economic policy (Babb 2013; Stiglitz 2002). Within this perspective, economists and international organizations are viewed as key agents responsible for the development of the new normative policy framework. Fourcade (2006) shows how changes in the economics profession have increased its global influence on policy. How are these ideological actors responsible for such broad institutional changes leading to the contemporary hegemony of neoliberal policy ideas? Hall (1993) writes that economic ideas create paradigm shift through a "trickle up" process of diffusion among state policymakers. Fairbrother (2014) has argued that there were multiple causal pathways to trade liberalization policies, with the developing world showing a pattern of economists coming to positions of state power. Babb (2004) confirms this for the case of Mexico, and Fourcade & Babb (2002) in a comparative analysis.

Beyond the political institutions of individual states, the influence of neoliberal economic ideas has worked on a broader level, as international organizations have had a significant impact on policymaking globally. Generally, international organizations are viewed as powerful because of the "rational-legal authority they embody" (Barnett & Finnemore 1999), acting as sites of dominant ideas that formalize global norms of policymaking (Meyer et al. 1997, Boli & Thomas 1997). Further, particularly in the case of international financial institutions, they wield power that can be used to coerce policy changes in many less powerful states (Kentikelenis et al. 2016; Centeno & Cohen 2012; Babb & Chorev 2009). While some have emphasized the autonomy of international organizations from state interests (e.g. Barnett & Finnemore 2004), and the primacy of ideas in institutional change (Béland 2009), others point out the need to consider how material interests affect which ideas are selected to subsequently diffuse globally (Kentikelenis &

Seabrooke 2017). However, there is little dispute that international organizations are central to the construction of contemporary neoliberalism globally simply by virtue of their broad international reach.

The IMF in particular has been a primary agent of global policy reform toward neoliberal models, largely through its conditional lending programs. In line with the contemporary emphasis on normative change, numerous scholars correctly identify a major normative transformation within the IMF during the 1980s (Kentikelenis & Babb 2019; Harvey 2007), leading to the well-known structural adjustment programs which debuted in 1985. An influx of neoliberal economists among the IMF staff is therefore held as a central cause of change in that organization toward structural adjustment, bringing dramatic reform of economic policy, social policy, and even state structure (Reinsberg et al. 2019; Chwieroth 2015; Babb 2005) in developing countries.

Kentikelenis & Babb (2019) describe an important process they term "norm substitution", extending contemporary focus on gradualism in institutional change (Mahoney & Thelen 2009; Streeck & Thelen 2005) to point out that even dramatic and rapid transformations need not require formal changes to institutional rules or open contentious politics. However, their finding that the IMF staff itself initiated the Fund's neoliberal transformation repeats a thesis common to scholarship from a wide variety of theoretical perspectives (e.g. Harvey 2007; Barnett & Finnemore 2004). They explicitly argue that the U.S. was "unenthusiastic" about the utility of expanded conditionality or even an empowered IMF per se, until the IMF itself proposed an action that the U.S. Government found useful. In this way, their findings do not directly challenge the dominant perspective on international organizations and neoliberalism, maintaining that normative changes in the Fund drove it to autonomous action, before any meaningful state

initiative. Evaluating data from the Treasury Department in 1985, they find an active U.S. interest in expanded conditional lending proposals made by the IMF staff, in contrast to previous American "mistrust of international organizations" (Kentikelenis & Babb 2019: 1734).

However, the IMF has always been in the business of distributing costs. Fundamentally an arbiter of payments surpluses and deficits between countries, the question of who should bear the cost of "adjustment" when international payments are asymmetric is a central political dynamic of the Fund (Dreher 2009; Babb 2007). Dreher (2009) points out that conditionality has been used as a lever by the United States to force the cost of international payments imbalances onto weaker countries (see also Williamson 1983), raising the question of whether this is epiphenomenal to the ideological changes in the IMF or the product of distributional conflict similar to those found in national political institutions as discussed above. A great deal of literature on the IMF points to its formative history in such distributional conflict after World War II, as the United States and Great Britain vied over monetary dominance and relative terms of trade in the postwar economy (Babb 2005; Helleiner 1996; James 1996; Williamson 1983; Block 1977). Closer to the modern era, Gould (2006) shows that private international lenders directly lobbied the IMF toward structural adjustment policies during the 1980s. Yet, where did the contentious international politics of economic distribution go during this time? Given that international financial flows grew vastly in the 1970s, IMF conditionality should be expected to have played a greater role in the contentious politics of global risk. Kentikelenis & Babb (2019) find these conflicts to have disappeared from view, giving way to subtle but radical normative shifts led by the IMF staff, rather than powerful national interests.

This is representative of the contemporary sociological approach to international organizations, which largely rejects state initiative and open distributional conflict as primary

constitutive forces in global governance paradigms, despite the well-documented distributional outcomes of IMF policy in practice. While Kentikelenis & Babb usefully demonstrate that U.S. power was necessary to reform the IMF toward structural conditionality, they leave the question of U.S. motivation for supporting new policy reforms without a thorough answer, aside from "keeping Third World governments from defaulting on their obligations to U.S. banks" (Kentikelenis & Babb 2019: 1735), confirming Gould's (2006) findings. This is not a trivial observation, however, as it identifies a central logic of the U.S. interest in neoliberal austerity more broadly. Further analysis is needed to evaluate their thesis that the repurposing of conditionality to safeguard private financial interests was indeed novel in the 1980s, and to elaborate this finding theoretically.

Research design

The first contribution of this research is a major revision to the predominant historical understanding of the end of the Bretton Woods international monetary system. Part of this correction should be attributed to a different theoretical approach; rather than treating structural contradictions as sufficient for causal explanation, attention to the political dynamics of global capitalist institutions offers a promising way to understand major institutional change.[5] The analysis also presents a large collection of primary data that allows for a detailed contingent explanation.

The narrative is constructed from archival documents gathered from the National Archives in College Park, Maryland. These were taken from the Treasury Department Record Group, and over 7,000 pages of documents were sorted and analyzed in order to compile a

[5] E.g. Barry J. Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar* (Oxford: Oxford University Press, 2013); Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971* (Chapel Hill: University of North Carolina Press, 2004).

detailed narrative analysis.[6] The documents represent daily memoranda from within the Volcker Working Group (VWG), which was created in 1965 to spearhead international monetary reform as will be explained below. All archival data is from the National Archives II in College Park, Maryland. These were taken largely from a single series in the Treasury Department Record Group that covers the activities of the VWG and other Treasury Department organizations from 1965 through the early 1970s, and over 30,000 pages of documents were sorted and analyzed in order to compile a detailed narrative. These documents from the VWG are comprised of daily memoranda from within the policymaking group and key external communication with the U.S. Executive Director to the IMF, the White House, and the State Department. The documents include communication between VWG members that discuss strategy, opinion, and draft policy or diplomatic proposals. Together, these documents represent a uniquely deep look at the process of international monetary reform, as the VWG can be thought of as a central node in the planning and coordination of international monetary reform.

Another intervention of this research – in the historical record and in general social scientific understanding of crisis – is that policy changes framed as responses to "crisis" should be reexamined as political operations, rather than exogenously determined events. Methodologically, attention to timing is a promising way to empirically investigate this idea. Having established, based on previous accounts (Eichengreen 2008, Williams 1977) that May of 1971 was a critical point at which the U.S. is thought to have been forced into action, primary documents from working group meetings, memos to the President and conversations in the Oval Office, allow us to examine the actual response to the May events by Nixon and his closest advisors. Finally, this data allows us access to the U.S. Treasury's own macroeconomic

[6] Records taken from National Archives II, Record Group 56, Entry A1-952, Box 1-13: "Records Pertaining to the International Monetary Fund."

"forecasts" to shed light on their reaction to actual events. This allows us to leverage the causal sequence of decisions and events into clearer causal analysis of the "crisis" said to have forced Nixon to close the gold window.

Process tracing involves the construction of chronologically-organized event sequences, to identify a clear causal narrative behind the event in question (Mahoney 2012). All key actors were identified through primary documents and secondary sources, and their discussions of monetary reform were categorized by subject matter, date, and content. The content of the discussions was analyzed to show the preferences, biases, and opinions of the actors involved. Quotes were selected based on their reflection of the prevailing views on a given topic among the key actors, and their illustration of the broader population of documents. Events included in the narrative were selected based on their influence on subsequent events; the result is a complex narrative from which we extract relevant information to illustrate individual components of the argument.

Overall, the study uses extensive archival data, much of which is novel to studies of these questions, to clarify our understanding of neoliberal globalization and develop more general insight into major change in the organization of global capitalism. The study develops the themes of unintended consequences, class conflict, and perceptions of the economy itself. Throughout the period covered by this study, and far beyond it for that matter, the U.S. Treasury has exerted significant authority over international economic policy. Therefore, this is a study of U.S. state power as it contributed to an institutional regime dominated by mobile private finance capital. It will show that the United States took action to disrupt the Bretton Woods international monetary system, as a rather accidental strategy rather than a preexisting goal. The Nixon Administration carefully stoked perceptions that market forces were responsible for the decision rather than their

own proactive decision. Going forward, then, the Nixon Administration needed a policy strategy for the significant global change and uncertainty it created. Chapter Four shows how unintended policy changes can lead the state to employ private institutions toward its goals. In this way, the study develops a more contingent approach to class-based analysis of the state, where state action can determine a predominant class faction, rather than vice versa.

The study begins by laying out the context in which the breakdown of Bretton Woods began. It will introduce the main individual actors involved within the U.S. Treasury Department and their basic operations, and detail the international political situation that led to the demise of the fixed exchange rate system. This narrative will establish a new account of the end of Bretton Woods, opening up important questions about the historical process that followed.

CHAPTER TWO

Closing the Gold Window: The End of Bretton Woods as a Contingency Plan

The major changes in the global economy since the 1970s have involved a shift toward international finance as the central activity in global capitalism, and many changes have come along with this. At bottom, though, this is an international system predicated on liberalized currency markets. Throughout the post-war period, exchange rates were fixed in place by an institutional regime known as the "Bretton Woods" framework, where the IMF guaranteed exchange rate stability by way of the U.S. dollar's convertibility to gold at a fixed price. Many of the developments that we associate with neoliberal globalization were predicated on or exacerbated by the breakdown of this international monetary order. This is known as the end of Bretton Woods, marked by President Nixon's 1971 announcement that the U.S. Treasury would be "closing the gold window"- ceasing the exchange of dollars for gold, immediately overturning the system of fixed exchange rates that had prevailed since 1945. What prompted this radical decision?

Despite the clear importance of this case for our understanding of the modern global economic landscape and the wealth of political economy work, modern institutionalist social science has scarcely grappled with the political causes of the end of Bretton Woods. The present research offers just that- declassified archival data allow us to examine the process leading to the end of Bretton Woods through the actions and deliberation of key officials in the U.S. Treasury and the White House, demonstrating clearly how President Nixon arrived at his radical 1971 position. The following background will review the existing scholarship on this case, and push back on the idea that Nixon's decision was largely structurally determined, instead offering a

contingent political explanation. The key puzzle to be explained is that *the United States never wanted to bring an end to Bretton Woods, nor was closing the gold window ever a preferred strategy* toward their goal in international monetary reform. Rather, the United States was backed into this position through international politics, turning begrudgingly to closing the gold window in order to achieve a short-term relief of its international deficits despite international opposition to the more modest reforms that the U.S. preferred.

The end of Bretton Woods, reexamined in this light, is presented as a late-arriving contingency plan in the U.S. government, in response to failed attempts to negotiate reform to Bretton Woods, and uncertainty over whether it could succeed in bending the regulatory structure of Bretton Woods toward the policy the Nixon administration preferred. This finding significantly alters our understanding of the history of this case, and raises an alarming account of institutional change more generally. Not only are powerful actors able to directly overturn major institutional structures through purposive action, it is also perfectly clear that they may opt to do so not out of any conviction or grand design, but rather begrudgingly to achieve a different purpose. This abrupt and unexpected end to a decades-long global institutional regime should be considered in the context of the contemporary one. Many aspects of the global order- defense sharing through the North Atlantic Treaty Organization, American hegemony through the dollar's status as the international reserve, and pivots between East-West and North-South relations as central organizing axes, for examples- have evolved rather continuously through existing institutional channels since Bretton Woods was inaugurated, as many scholars of institutional change would point out. However, the findings of this case align with those who point to the role of purposive institutional displacement as a driver of change that needs to be more adequately theorized.

The following section introduces existing political-economic analyses of the end of Bretton Woods, also serving as an important background to the narrative that follows a discussion of the new data used in this analysis. The bulk of the narrative traces the intra-state deliberation and international politics surrounding international monetary reform, highlighting the pivot toward closing the gold window as a strategy precipitated by the failure of other preferred options. The discussion and conclusion will identify several insights that these findings bring to our understanding of the contemporary global economic regime, and instances of major institutional change more generally.

Understanding the End of Bretton Woods

The Unraveling of Bretton Woods

As mentioned above, the central dynamic of Bretton Woods was a combination of exchange rate stability and major economic expansion, including an expansion of trade and capital flows. These dual features are key to understanding part of the causes and consequences of the end of Bretton Woods. The conventional understanding of this case points correctly to a contradiction between these trends, where the expansion of trade and foreign investment exacerbated the tendency of dollars to accumulate abroad, undermining confidence in the dollar and threatening the dollar-based international monetary system. This structural contradiction is largely attributed as the cause for the demise of Bretton Woods. In the aftermath, it must be said that if exchange rate stability was ultimately incompatible with increased trade and capital flows in a dollar-dominated monetary system, it is understandable that liberalization of exchange rates introduced significantly more volume and volatility into both arenas. In fact, concern over volatility in capital movements was a major concern with floating exchange rates, and a primary

reason that White House advisors initially rejected the proposal. Immediately after Nixon's announcement, there were a series of international negotiations to "patch up" the Bretton Woods system under terms that would virtually erase American deficits through exchange rate changes. Indeed though, the United States recognized that it was likely operating in a future of exchange rate flexibility. By 1973, the world's major currencies began to fluctuate much more than they had previously, and it was apparent that floating exchange rates were now the core of the new monetary system. In addition to exchange rate changes in Western Europe and Japan, exchange rate volatility helped cause or exacerbate significant fiscal crises in the developing world, coming with a rapid increase in the role of the IMF, extending much larger amounts of credit to these increasingly indebted countries. By the mid-1970s, the IMF and the U.S. Treasury became central players in a series of such fiscal crises, which culminated in harsh "conditionality", the well-known practice of imposing fiscal austerity and other neoliberal reforms as a condition of lending[7]. It is important to remember that this animating feature of contemporary global economic relations links directly back to the end of gold convertibility in 1971.

Turning back to the relationship between stable exchange rates and the expansion of international trade and capital flows, there was a central contradiction in Bretton Woods, famously attributed to Yale economist Robert Triffin (1960). The basic observation of the "Triffin Dilemma" was that the expansion of trade and capital mobility, coupled with rising deficits which the U.S. was allowed to accrue by way of the dollar's status as the international reserve, would lead to an unsustainable shortfall of gold in the U.S. Treasury to back the excess dollars in circulation. This would ultimately lead to a crisis of confidence in the dollar, threatening the stability of the system and certainly the dollar's dominance of it. Indeed, currency

[7] See e.g. Sarah Babb, *Behind the Development Banks: Washington Politics, World Poverty, and the Wealth of Nations* (Chicago, University of Chicago Press, 2009).

markets abroad showed several significant divestments from the dollar, held as the proximal cause for Nixon's critical decision to close the gold window to stop this supposed run on the U.S. Treasury. This widely accepted narrative holds that U.S. gold reserves were approaching a critically low point in 1971, forcing Nixon to take definite action to maintain the world's liquidity, or at least to avoid a situation of international monetary reform where the dollar was removed from its position as the international reserve (Eichengreen 2010). However, this narrative is called into question by primary source analysis. Secretary Connally, speaking with President Nixon (on tape) on the eve of the Camp David meeting, argued bluntly that "I don't think we ought to think in terms of a crisis. We're lined up here with six billion dollars. What the hell difference does it make whether we've got six or ten billion, in the final analysis. I'm not worried about that, that doesn't worry me in the least...We owe thirty billion, so what, so we can't pay it…if they call us. That isn't the critical point" (Nichter 2010, 237). The present analysis is more concerned with the political and institutional circumstances of this case, because if economic circumstances are insufficient to explain the *fact* of American action here, the political motivations alone are insufficient to explain the *form* of that action.

The End of Bretton Woods as a Contingent Case of Institutional Change

The data used to inform this analysis centers on the activities of what become known as the "Volcker Working Group" (VWG), a specially appointed organization within the Executive Office of the President. It was created by the Johnson Administration in 1965 and tasked with the study of international monetary reform to address "vulnerability to political and economic pressure through the threatened conversion into gold of any overhang of official dollar

balances".[8] This mandate does acknowledge the problem of massive dollar outflows from the United States; the shortage of gold was real, and this was no secret. What was secret, though, was the existence and activities of the WVG itself, which was actively studying the problem long before the end of Bretton Woods in 1971 and whose activities could plausibly have led to a different outcome. The White House, the VWG and the Treasury Department had significant authority within the U.S. government to close the gold window, without Congressional approval or any veto by the Federal Reserve. Further, such an aggressive policy is clearly the sole prerogative of a global superpower like the United States. However, the VWG spent a great amount of time and energy voluntarily complying with the Bretton Woods framework. The negotiations that proceeded within the IMF will be shown as a key determinant of the decision to part with Bretton Woods.

The issue of institutional compliance is one taken up explicitly by Mahoney & Thelen (2010), who focus specifically on rule compliance as a variable to explain forms of institutional change within multilateral negotiating frameworks like the IMF. Within their analysis, the outcome of purposive change initiatives should depend on "veto possibilities" and "discretion" in rule interpretation and enforcement (Mahoney & Thelen 2010). A key argument here is that even powerful actors are typically forced to pursue their interests through existing institutional channels, and the changes they seek therefore often result in gradual shifts in the institutional structure due to these institutional constraints. This gradualism is characteristic of many accounts of neoliberalization, where actors gradually migrate to a new policy paradigm through a series of local innovations (e.g. Campbell & Pedersen 2014; Hall 1989). Indeed, gradual evolution maybe the most common form of institutional change, and it is important to consider that this was in fact a plausible outcome of U.S. efforts to reform the Bretton Woods system.

[8] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 6/11/65

Nevertheless, the outcome of the case follows a pattern identified by other historical institutionalists who point to the ability of powerful actors to directly remake institutions when the existing order no longer serves their interest. This perspective intervenes by treating institutional structures as historical artifacts, rather than pre-given constraints that can be taken for granted. The superficial stability of an institutional arrangement such as Bretton Woods can mask an "underlying dissensus" over the institution itself, between a potential variety of parties with divergent interests (Peters et al. 2005). Here, institutional structures are seen as temporary artifacts of previous episodes of contention, and subject to future ones. For Chorev (2007), changes may occur when the institution no longer serves the interests of powerful actors, those interests change, or when the underlying distribution of power in the institution changes.

The narrative below makes use of both perspectives, treating U.S. strategists both as constrained by the existing political and regulatory structure of the Bretton Woods-era IMF, and sufficiently powerful to flout these constraints by choosing to directly overturn the institution. The narrative analysis is broken into two distinct chronological phases. The first, longer period is characterized by compliance with the existing international monetary system and the pursuit of what may be fairly described as gradual reforms to it. The narrative will show a clear exclusive preference for reformist strategies, which eventually were met with skepticism from other major parties to the IMF. After giving up on these reform negotiations, the Americans turned to studying the Articles of Agreement in order to reinterpret existing rules to allow for a major one-time adjustment of the dollar's relative value, effectively removing its dollar deficits. However, when the Treasury Department finally concluded that IMF rules were insufficiently flexible to allow for this kind of "discretion", then and only then did it turn to the more radical option of closing the gold window altogether. In this way, the political and regulatory constraints of the

IMF did not channel U.S. action toward more gradual and indirect institutional changes, but actually the opposite. The lesson of this case is that powerful actors such as the U.S. Executive branch may take strategic action to blow up a major taken-for-granted institution, but not even as an intended goal or strategy. Rather, major institutional change can take place knowingly and purposively, but simply as a means to a more short-term goal. This suggests that subsequent "neoliberalization" in international economic policy should be seen in the context of U.S. government awareness that it needed to learn to adapt to a new environment of its own creation, but not its preference.

Closing the Gold Window in Institutional Context

While it is sometimes referred to as a system of "fixed" exchange rates, Bretton Woods is more accurately described as a system of "stable" exchange rates or an "adjustable peg" (Williamson 1978). That is, the fixed par values of currencies were allowed leeway for one-time exchange rate changes, using institutionalized provisions in the Articles of Agreement that would become relevant in the American quest to devalue its exchange rate position. The Bretton Woods international monetary system had actually evolved considerably since its inauguration in 1948, including several cases of one-time changes to the stable "par" values of exchange rates. These cases were studied closely by the VWG for three reasons. First, they had the potential to directly impact America's gold position and foreign dollar holdings, for the reasons correctly identified by political-economic accounts of this case. Second, they represented a growing body of precedent for one-time exchange rate changes under the special case of "fundamental disequilibrium". Invoking this provision of the Articles of Agreement required IMF approval, but stipulated that the IMF may not disallow one-time rate changes in cases where maintaining the

given par value would negatively impact the ability of member states to maintain full employment policies (Williamson 1978). To the VWG, the concept of fundamental disequilibrium represented a potential to exploit IMF rules in their favor. By construing their position as such they could, in theory, justify an alteration of the dollar's gold value. This presented a particularly thorny issue because of the dollar's status as the reserve currency and the anchor of the gold-exchange system. While the revaluation of a single non-dollar currency relative to gold had no direct impact on the value of any other, a revaluation of the dollar relative to gold would have direct consequences for all other currencies. This exact plan was put forward by Robert Mundell in the 1960s, as will be discussed below.

Throughout the 1960s, discussions of the Triffin thesis had made their way into policy circles and broader discourse, and there was some broader support for the supplementation of liquidity within the international monetary system. In 1965, President Johnson initiated a Secret-classified Working Group to study reforms to achieve this goal. The Group was known initially as the "Deming Group", for then-Undersecretary of Treasury Fred Deming, but later known as the Volcker Working Group when Paul Volcker was promoted to this position with the inauguration of President Nixon.[9] In creating the Working Group, Johnson stated that "the Free World will need some way of systematically producing the additional liquidity which has been supplied by the payments deficits of the United States. This will require international agreements among the nations which are the primary sources of liquidity".[10] More than just rhetoric, the actions of the Working Group would reflect this Bretton Woods-era internationalism – Johnson mandated that policy options be "fit for negotiation" within "a world of fixed parities".[11] This

[9] For this reason, the analysis will refer to this group as the "Working Group" until Volcker's appointment, and the VWG thereafter, but they are the same entity.
[10] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 6/11/65
[11] Ibid.

established and reflected the initial parameters of reform- rule compliance and diplomatic feasibility. From the U.S. point of view, however, the issue was more than a systemic concern, but a matter of maintaining a dollar-based international monetary regime, along with its full-employment policy at home and deficits abroad, which were effectively subsidized by this system. In sum, the U.S. goal in international monetary reform was to ensure that the monetary system operated- not just *per se* – but on the continued basis of the dollar's "exorbitant privilege"[12] as the international reserve currency.

The Working Group was housed in the Treasury Department but comprised of members of the Council of Economic Advisors, the State Department, and eventually the National Security Council under Nixon. Aside from its Chairmen, key members were Deputy Undersecretary George Willis, who was deeply involved in draft policy proposals, and legal counsel Michael Bradfield who would provide key analyses of IMF rule compliance and, in fact, compliance with U.S. law. Finally, Bill Dale, representing the United States as an Executive Director at the IMF, was a regular point of contact and strategist regarding international negotiations, and liaison between the VWG and State Department outposts overseas.

The Initial Approach: Multilateralism and Compliance

For nearly three years after its establishment, the Working Group's activities were largely confined to internal discussions within the Group, aside from soliciting proposals and analyses from academic economists. In order to strengthen the dollar's position without a significant fiscal contraction, the primary objective was to introduce some amount of controlled exchange-rate flexibility into the international monetary system in order to achieve a devaluation of the dollar relative to other major currencies. The Group's task was to study ways of introducing this

[12] See Eichengreen, *Exorbitant Privilege* for a recent analysis of U.S. interest in the dollar as international reserve currency.

exchange-rate flexibility, and the process of selecting viable options illustrates the Group's initial thinking on the problem. The Working Group exclusively preferred courses of action that aligned with the existing institutional framework of Bretton Woods: multilateral negotiation, and short-term exchange rate stability.

Within this framework, the Working Group identified two mechanisms to achieve its devaluation: "wider margins" and a "crawling peg". Both approaches to exchange rate flexibility, while aiming to maintain the dollar as the international reserve and to boost its competitive position, reflected orthodox preferences for the Bretton Woods political and economic status quo. "Wider margins" meant simply increasing the 1% window in which currencies could fluctuate relative to the dollar, allowing the U.S. to negotiate an upward revaluation of other currencies. This of course would depend on its negotiating power. Thus, there was concern that this proposal would actually encourage further *depreciation*, rather than the desired *appreciation* of foreign currencies. Noting that "it generally appears to be easier to bring about depreciation than appreciation under the present system", it was preferred that countries be "required to avoid intervention in the exchange markets for their currencies".[13] There was also a concern that this proposal would give a significant competitive disadvantage to the United states- as the reserve currency, it could only fluctuate half as much as others.[14]

Like the wider margins plan, the crawling peg was seen as carrying significant risks. The crawling peg plan was more ambitious in that it would allow exchange rate par values to fluctuate indefinitely, albeit in a gradual, managed way that preserved short-term stability. The concern for short-term stability was major, as it was feared that even managed doses of exchange rate flexibility would have negative impacts on capital flows that could impact U.S. firms.

[13] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/22/68
[14] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/7/68

Council of Economic Advisors member Hendrik Houthakker called proactively for "some discreet discussions with multinational companies"[15] to address this concern. Like the wider margins plan, there were concerns that a crawling peg would actually work in the opposite direction, ultimately undermining the dollar's position as the international reserve.[16] For this reason, the U.S. distinguished varieties of crawling pegs that automated par-value changes, and those that allowed the crawl to be governed in a discretionary way, making it subject to political decision and therefore compromising the U.S. goal of devaluation. The Working Group of course preferred the Self-Adjusting Peg (SAP), which would be "first and foremost a decision-making system which substitutes an agreed set of criteria for the existing procedure of each individual government coming separately to its own conclusion".[17] That is, rate changes would be subject to an algorithm rather than direct control by non-U.S. central banks.

In effect, both wider margins and crawling pegs represented moderate reforms to Bretton Woods, maintaining its primary feature of stable exchange rates. Further, these proposals fit the multilateral political logic of Bretton Woods. Both options would maintain the IMF as a venue for managing exchange rate stability multilaterally, and the American approach to achieving these reforms required multilateral agreement. It should also be said that both of these reforms had been introduced for study by the IMF itself.

Proposals rejected by the Working Group also indicate deference to the multilateral and fixed-rate logic of Bretton Woods. The ultimate decision to close the gold window is rendered especially puzzling by the fact that the Working Group thoroughly considered altering the dollar-gold link before undertaking negotiations on reform, and thoroughly rejected the idea. This took the form of the "Mundell Plan", which, while much more radical than wider margins or crawling

[15] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/19/68
[16] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/20/68
[17] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/11/70

pegs, was actually less radical than the action ultimately taken. Mundell advocated for a liberalization of the dollar itself relative to gold within 7.5% margins,[18] creating significant liberalization of all international currencies. The Mundell plan was discussed as soon as the Working Group convened in 1965, and members of the Group were largely opposed to the plan on three grounds. First, changing the gold price "would be difficult to reconcile with the existing provisions of the [IMF] Articles".[19] Mundell's argument was characterized as "defective, or at best misleading, in its suggestion that Fund widening of the gold margins…could be accomplished with minimal disruption, leaving all other (major) countries operating under the terms of Article IV, Section III".[20] Further, "a unilateral U.S. declaration [of changing the gold price] could be meaningless unless it had wide multilateral support";[21] garnering this international consensus was seen as a critical oversight in Mundell's thinking.

The final objection to the Mundell Plan came from an adherence to fixed-rate economic orthodoxy; members of the working group were actually opposed to exchange rate flexibility in principle. The Mundell plan was clearly the "entering wedge of almost unlimited…flexibility".[22] In assessing this prospect, George Willis summarized the views of the Working Group in a memo to Volcker by saying that flexible exchange rates had "considerable theoretical appeal, but in practice…[were] liable to produce chaos".[23] Policymakers were thus explicitly aware of a "very wide gap between the interest of academic economists and those of practitioners".[24] There is no evidence to suggest that the theoretical distaste for exchange rate flexibility changed at all, even as the Group's activity pivoted toward exactly that.

[18] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/1/65
[19] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/20/68
[20] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/1/65
[21] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/6/68
[22] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/1/65
[23] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/7/68
[24] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 10/15/69

Negotiating Reform: Discovering Veto Possibilities

In late 1968, with the U.S. Presidential election approaching, the Working Group decided to use the 1968 annual meeting of the IMF to "pave the ground" for a diplomatic campaign for wider margins or a crawling peg going forward.[25] Nixon's election brought Paul Volcker into the position of Treasury Undersecretary for International Monetary Affairs, and therefore the chair of the Working Group, henceforth known as the VWG. Volcker stepped in just as the flexibility negotiation push was beginning, and entered his office to a briefing regarding how to proceed. The first question was the appropriate venue. At this point, the IMF Group of Ten (G10) was viewed as the preferred negotiating venue[26] in the interest of keeping international involvement "as small as possible"[27]. By restricting negotiation to major economic powers in this way, the potential veto power of the broader Fund membership could be bypassed. By September of 1969, the U.S. was able to formally bring exchange rate flexibility to the table in the G10, creating a mandate to study the issue within a specially appointed Working Group of the IMF Executive Board.

Also in September, West Germany allowed its currency to float freely on the open market, after approval for by the IMF, eventually intervening to stabilize it at a new exchange rate. This received significant attention in the VWG, which commissioned a full investigation into the German "experience" with the float. Specifically, it was interested in two major questions, firstly the mechanisms by which private currency markets impacted the German Mark's value during the brief period before the German government intervened to establish a new, higher, par value. Secondly, it was interested in how commodity markets responded to this

[25] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/19/68
[26] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/22/69
[27] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 12/19/68

period of liberalization.[28] Two months later, Ralph Korp, Treasury Attaché at the U.S. Embassy in Rome responded with a report compiled from "discrete contact" with Italian officials regarding the German liberalization. Korp's contacts noted that cross-border trade was largely unaffected, largely because private contracts during the liberalized period were denominated in non-Mark currencies. Further information would be difficult to obtain without approaching "a different breed of people, i.e., importers, exporters…such contacts would, of course, greatly increase the risk of revealing what we are 'about'".[29] Evidently, the scrutiny of this very brief exchange rate liberalization was "about" American interest in forms of exchange rate flexibility that were more aggressive than plans put forward by the IMF. In its initial talks on the issue, however, Bill Dale represented the United States' interest in exchange rate flexibility as a passive response to discussion in academic circles, because "sooner or later some of these proposals will have to be examined…so that [we] can take an intelligent posture toward them".[30] At an initial G10 meeting, Dale assured members that they were not "considering any non-discretionary system of moving rates, or any proposal for very wide margins around exchange parities.[31]

Meanwhile, in early 1970, legal analyses from the IMF itself made it clear that a non-discretionary SAP, the favored U.S. option, would require Amendment to the IMF Articles of Agreement.[32] However, prospects for such an amendment were largely shut down in the G10, as its attention turned to the "presumptive criteria" for a crawling peg based on the political discretion of member states. The problem with presumptive criteria was that they "would apply

[28] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/68
[29] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 11/24/69
[30] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 11/8/68
[31] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 4/22/70
[32] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/16/70

directly and explicitly to other countries, but only indirectly to the United States",[33] due to the dollar's fixed price relative to gold. In order to achieve its desired exchange rate adjustment, it would need *asymmetric* presumptive criteria. That is, universal criteria that determined the trajectory of par values would apply only to other countries. Dale noted that "when a U.S spokesman speaks of presumptive criteria which would apply to others, but not to the United States, it is the most natural of all reactions for others to consider it invidious...[presenting] nearly as much in the way of difficult political implications as cutting the link to gold, by way of explicitly showing the world to be on a dollar standard".[34]

In early 1970, Deputy Undersecretary George Willis summarized the U.S. position in a memo to Undersecretary Volcker. Essentially, they recognized that opposition to amending the IMF Articles was significant, but the plan was to try to keep the door open for SAP proposals after "educating" countries of their benefits.[35] At this point, France, as the most vocal opponent of the U.S. initiative, held up progress in the G10 by forming a caucus within the European Economic Community (EEC), attempting to devise a common European position on the issue of monetary reform, attempting to force "solidarity in 'broader forums'".[36] Through leaked confidential EEC documents, the VWG learned that discussions revolved around the prospect of European monetary integration, already the precursor to a common currency. A meeting of European finance ministers discussed a policy of denominating central bank interventions in exchange markets in local currencies, rather than the dollar,[37] a significant threat to the dollar's monetary dominance under the fixed-rate system. The "big six" countries of the EEC sought

[33] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/11/70
[34] Ibid.
[35] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/27/70
[36] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 6/2/70
[37] National Archives II, Record Group 56, Entry A1-829, Box 1-2: 10/27/70

agreement on close parity between their currencies going forward before taking up the issue of exchange rate flexibility.[38]

It is apparent that the French aimed to accelerate the prospect of European integration as a lever against dissenting governments in international monetary negotiations with the United States, and that this was fairly successful. Reporting on conversations with sources in the West German Finance Ministry, a Treasury official noted that:

> *The Germans have come to the conclusion that it will not be possible to get any support within the EC…this suggests that we will have an up-hill battle to keep the subject alive at all. I suspect that the French smell victory… In fact, we may see some maneuvering by the French to minimize the influence of G 10 simply because at this point they're trying to keep to the minimum the US influence on the direction in which the common market is going. They're opposing any kind of special consultative mechanism between the EC and the US, they may even find that the Australian interests in the OECD and the Austrian interest in WP3 provide an opportunity for sabotaging the forums in which the US has an opportunity to influence EC decision-making.*[39]

In 1970, the IMF executive board's agenda confined the discussion to widening exchange margins from 1% to 2% and continuing to work on clarifying the presumptive rules for discretionary rate changes.[40] At this point a stalemate was starting to solidify. Dale summarized this earlier in a memo to the VWG, stating that "no one else has developed a 'felt need' for [an

[38] National Archives II, Record Group 56, Entry A1-829, Box 1-2: 9/14/70
[39] Ibid.
[40] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/30/70

SAP], and "precious few have seen very much need for [crawling pegs per se]…the first basic problem for the United States in fostering a…crawling peg system is that it resembles pushing on a string".[41]

The U.S. continued to push the SAP onto the agenda, although its "general expectation [was] that only relatively minor changes will be ready for recommendation to the Governors by this Fall".[42] The plan remained to obtain "the substantial modification we consider necessary through more informal routes",[43] specifically by working with allies to keep amendments to the Articles on the agenda going into 1971. However, more vocal opposition began to emerge within the G10, the IMF Executive Board, and within the broader membership of the IMF. On behalf of the bloc of developing countries, Byanti Kharmawan of Indonesia made a statement to the IMF expressing categorical opposition to exchange rate flexibility.[44] Fairly embarrassing to the United States, even the South Vietnamese representative made a similar statement.[45] Further, Japan registered vocal opposition, and virtually every member of the Executive Board was either expressly opposed to flexibility, or wishing to proceed informally and cautiously.[46] West German and Italian silence on this issue, despite their informal collaboration with the United States even in intra-European politics, indicated the success of the French maneuver.

Reconsidering Strategy: The 'No-Veto' Possibility

Learning that multilateral reform efforts faced overwhelming veto prompted reconsideration. In August 1970, Willis issued "The Case against a Major Push for an IMF

[41] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 7/22/69
[42] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 5/7/70
[43] Ibid.
[44] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/18/70
[45] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/19/70
[46] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/20/70

Flexibility Amendment in 1971." Progress was unlikely "without a great deal of pressure", and there seemed "to be no assurance of success".[47] Further, "pushing against a string", as Dale had put it, would "increase suspicions of our motives. What do we have up our sleeves? Do we look at exchange flexibility as a means for getting rid of our balance of payments problems?"[48] This was the consistent concern of U.S. diplomacy on this issue- taking care not to reveal the extent of its interest in exchange rate flexibility as a means to devalue the dollar. In fact, the actions of the VWG for at least the previous four years constituted precisely as a devaluation campaign. |Managed exchange rate flexibility was viewed explicitly by the United States as a means to eliminate deficits through the exchange rate, rather than domestic policy.

The Working Group had compromised these goals significantly in the drive to produce reforms that maintained the basic institutional structure of the Bretton Woods monetary system. Now they were faced with an apparent failure of these options. Dale echoed this further: "Why is our credibility so strained...We have been consistently underestimating the difficulties of pulling off a flexibility push, and...we are underestimating them now…The matter is not ripe for international action in 1971".[49] In a memo to the VWG dated August 10, 1970, Dale explicated a key realization that is worth quoting at length:

> *We tend to forget – but others don't – that smaller countries want to be sure their interests are protected – even overprotected – by the international established law. In a sense, a loosening of such concepts of the par value system could hurt them – or so they believe- while a big country like the United States always has enough power to protect itself, and indeed to pressure others. There is a sense in*

[47] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/3/70
[48] Ibid.
[49] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/10/70

which smaller countries are much more prepared to approve, or at least tolerate without much protest, individual cases of flexible behavior…than they would be to write such provisions positively into international law. This consideration suggests that we may get farther by doing than by trying to legislate.[50]

This realization was the key to later radical institutional displacement, and summarizes a key lesson from this case. Faced with overwhelming veto power, US policymakers sought an option that was more feasible. The final attempt at reform was a matter of manipulating existing IMF rules rather than achieving any changes to them through multilateral negotiation. The activity of the VWG after August 1970 centered around legal counsel Michael Bradfield, and general discussion of the feasibility of revaluation "under the present Articles of Agreement of the International Monetary Fund"[51]. The United States, at this point, was seeking a one-time devaluation of its currency within the existing provision for "fundamental disequilibrium" as discussed above. All analyses concluded that any changes to par values would be subject to review of the IMF executive board[52].

The term "fundamental disequilibrium" is a notorious term for scholars of this case, largely because its definition is very difficult to deduce. Bradfield's analysis did locate a potential opportunity to test the boundaries of the Articles, namely that *small* changes in par values were not subject to concurrence with the IMF, and that "it would seem to be possible to construe the Articles as allowing the Fund to approve a series of changes over a period of time…giving the member the overwhelming benefit of the doubt".[53] The definition of "small",

[50] Ibid.
[51] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/23/70
[52] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 5/4/71
[53] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/3/70

however, was that which was in itself insufficient to correct a fundamental disequilibrium. From this place of ambiguity, "it would not be possible to conclude that the Fund is not required to object to a proposed change in par values that was not fully adequate to correct the fundamental disequilibrium".[54] The question then would become one of "how far the Fund can go in approving small and frequent changes in exchange rates before it crosses the line of approving a fluctuating rate".[55] The most relevant guideline to this question Bradfield could find was in an IMF paper stating that 'treaties must be applied in good faith'. He noted that this paper "obviously proceeds from the assumption that the drafters of the Articles of Agreement intended a fixed rate system…if this assumption is correct…then an amendment is necessary in order to adopt any kind of system involving more frequent and smaller changes in parity".[56] After this point, any attempts to negotiate reform or unilaterally exploit existing rules were abandoned.

By early 1971, closing the gold window was effectively "Plan A" for the VWG and the White House. A VWG memo on January 28, 1971 outlined sweeping plans to initiate a "radical realignment" of the international monetary regime by closing the gold window.[57] While the eventual action on August 15th deviated from this plan due to the desire to circumvent Congress, the January memo presents closing the gold window as an audacious attempt to force its desired devaluation. The plan:

> *Would concentrate action within a two week period…of the IMF Annual Meeting...The United States would discontinue the 'free' sale of gold and SDR's against dollars and would close exchange markets…The President and other*

[54] Ibid.
[55] Ibid.
[56] Ibid.
[57] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/28/71

officials delegated by him would be authorized to propose and agree to a combination of a uniform change in par values and a change in the par value of the U.S. dollar in such a manner that the official U.S. dollar price of gold would at no time exceed $35 per ounce. This would be sought by an initial step comprising a uniform appreciation of the currencies of all Fund members of the appropriate magnitude (say, up to 25 per cent), the United States would propose, and the Fund would agree to, an individual depreciation of the U.S. dollar back to the point where the official price of gold would be $35…[the revaluations] should aim for a U.S. official settlements surplus…in the range of $2-3 billion per year".[58]

The VWG was very aware of the ambitiousness of their plan, to say the least. Volcker cautioned that "it would be necessary in order to maintain our bargaining position taken through inconvertibility…that the U.S. make clear from the start that the U.S. would be prepared to live with the floating rate systems indefinitely".[59]

In the spring of 1971, the Treasury, the VWG, and the White House accelerated study of the logistics behind closing the gold window. They executed legal studies of the authority of the President and Secretary of the Treasury to close the gold window without Congressional involvement.[60] They also studied the sanctions that may be imposed by the IMF for this clear violation of the IMF Articles of Agreement. These analyses determined that, while technically there would be grounds to expel the U.S. from the Fund membership, outsized American influence and contribution to the IMF made this very unlikely.

[58] Ibid.
[59] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 5/8/71
[60] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/31/71

Article One of the IMF Articles of Agreement stated the mission of the Fund as "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation".[61] In light of these two functions of Bretton Woods, the American approach to the matter contained an inherent contradiction that eventually boiled over. While the adherence to exchange stability and "orderly…arrangements among members"[62] guided their initial approach to reform, it was precisely this second function- a competitive depreciation- that closing the gold window sought to achieve. When the goal of devaluation was no longer compatible with Bretton Woods compliance, the US decided to proceed in a unilateral manner. Plans to close the gold window were finalized in May 1971, and executed in August.

Novel Findings and Explanations

This analysis shows that the end of Bretton Woods was not the originally intended outcome of the U.S. reform campaign, but was eventually decided on and directly enacted to circumvent the regulatory and political structure of the IMF. How does this change our understanding of the case, and its critical aftermath? What does this tell us about how policies get made within state and international institutions more generally? The explanation given here does not rely entirely on the structural circumstances within the Bretton Woods economic system, or the existing institutional constraints of Bretton Woods. Nor, rather, were American policymakers enamored with the idea of floating exchange rates in theory or practice. Instead, the evidence presented shows that powerful actors may effect major and enduring institutional change not as a primary goal in itself, but as a means to achieve a short-term goal. In this case,

[61] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/16/70
[62] Ibid.

closing the gold window was meant to defend the hegemony of the U.S. dollar, after having failed to negotiate other solutions.

The fact that subsequent U.S. international economic policy was marked by a significant turn toward liberalization requires further analysis. While ultra-liberal economists had been advocating closing the gold window or other forms of radical exchange rate liberalization for many years, these were still very marginal figures in the political and intellectual mainstream. Shortly after the VWG gave up on Bretton Woods-compatible reforms, Milton Friedman became a regular guest at the White House. In January of 1971, Nixon named Wall Street billionaire Peter G. Peterson as chairman of the newly created Council on International Economic Policy, which interfaced with other Executive Branch groups like the National Security Council and pushed significantly for closing the gold window, as well as corresponding moves toward liberalization in other aspects of international economic policy going forward. How do we explain this?

Numerous accounts exist of "neoliberalization" in trade, finance, domestic fiscal and monetary policy, and foreign investment after the end of Bretton Woods, focusing on the coordinating role of international institutions. Chorev's convincing analysis of the formation of U.S. trade policy notwithstanding, though, many of these accounts portray the paradigm shift as diffuse and piecemeal, amidst growing institutional heterogeneity and complexity. How do we reconcile this with the fact that the underlying foundation of liberalization - exchange rate flexibility - was directly and unilaterally enacted, by an administration that had never really even preferred this course of action? In tracing the historical process of international monetary reform, we are reminded of a simple approach to the problem of structure and agency that allows us to see institutions as structuring outcomes in complex, diverse, and contingent ways, without

discarding overarching political interests that animate these processes. To echo Chorev, again, attention to the historical foundation of these key institutions allows us to see the regular potential for major institutional regime change (Chorev 2005), rather than presuming such significant changes to be "exogenous shocks" or too complex to be the product of a single action or design. Floating exchange rates were viewed initially as an unacceptable risk to the U.S. because of their imagined impact on short-term capital flows and the interests of U.S.-based multinational enterprises. While the U.S. Treasury consistently acted with private interests in mind, Chapter Four will make clear that it was not always clear how to pursue these interests, and the particular interests it seeks to advance depend significantly on the state's own conception of its goals.

The findings of this analysis are also provocative in that they lead us to consider a viable counterfactual in which the U.S. could have successfully negotiated reform to Bretton Woods that maintained the basic feature of exchange rate stability. While these findings do not directly challenge accounts of subsequent neoliberal institutionalization that describe changing actors and ideologies or balances of class power, it is worth tracing these developments back to the end of Bretton Woods to imagine a trajectory of the global economy that need not have included liberalized exchange rates. The foreign exchange crises of the 1970s in the developing world corresponded to a growing wave of debt dependence, and a new deployment of IMF "conditionality" in the context of greatly expanded lending. The liberalization of exchange rates was followed by a campaign to reduce restrictions on the entry of foreign capital into previously protectionist economies, as well as an expansion of the role of private banks in lending to indebted countries. Whether we attribute these changes to the growing power of private multinational capital, ultra-liberal economic ideology, or an inevitable consequence of American

post-war hegemony, the history of neoliberal globalization should account for the fact that these actors and ideologies did not intentionally construct the architecture of exchange-rate liberalization, but rather capitalized after an empowered Treasury and willing President essentially stumbled into this position as a contingent political development.

Overall, the finding suggests that single executive decisions may empower previously marginal actors and ideologies in far-reaching and ultimately unforeseen ways. At the same time, it should also draw attention to the importance of purposive action in institutional change. The assertion that most institutional change is gradual and often indirect (Mahoney & Thelen 2010) may be true, but the case of Bretton Woods clearly demonstrates that exceptions to this rule can have a dramatic and enduring impact. There is ample scholarship that focuses on how institutions *accommodate* challenges- existing institutional constraints do typically temper and redirect challenges into gradual, unexpected evolution. Now, it would be timely to focus more attention on the conditions and properties of institutions that make them vulnerable to radical reformation. The end of Bretton Woods should be seen not as an inevitable outcome of structural constraints, but a bold and aggressive response to the failure of existing institutions to accommodate the goals of an empowered U.S. Executive.

Having shown that the dissolution of the international monetary system was undertaken proactively, it should be pointed out that a narrow group of U.S. officials were responsible for this monumental pivot in the history of modern capitalism. Moreover, this fact is seldom appreciated, as international monetary affairs are typical presented in technical terms that obscure this striking political fact (Block 1977). With this new insight into the historical record, we should examine how it came to be that the world viewed the breakdown of fixed exchange rates rather incorrectly as an economically determined development.

CHAPTER THREE

Crisis as Opportunity

What is an economic crisis? In a certain sense, an economic crisis may be defined by its effects. The financial crisis of 2008-2010 was certainly a crisis for its devastating consequences on millions of working people. It also seems that economic crises are often narrowly avoided, thanks to difficult but necessary policy action. The underlying causes of an economic crisis are much hazier in the public perception, and therefore generally subject to political manipulation. A great deal of social scientific research has concerned itself with the question of why economic crises happen, rather than treating them as social and political constructions. The breakdown of the Bretton Woods international monetary system, as such a major event in modern economic history, represents a very high profile instance of a manipulated crisis.

The announcement that the United States would be severing the dollar's link to gold, and therefore the international monetary system, resulted in shock and confusion. In his televised speech on August 15, 1971, President Nixon presented it as a necessary response to a "crisis" and a defense against "an all-out war on the American dollar."[63] Standard academic accounts of this case actually have not significantly challenged Nixon's assertion that circumstances required the President to act in this way. Economic explanations treat this decision as structurally inevitable, based on a declining supply of gold in the U.S. Treasury, pointing to international currency market events in May of 1971 as the proximal cause for policy change. As Chapter Two has shown, political conflict within IMF negotiations was much more decisive than any

[63] Transcript of a video of televised speech, "The Challenge of Peace: President Nixon's New Economic Policy," delivered on August 15,1971, available on Nixon Foundation website. https://www.nixonfoundation.org/2014/08/challenge-peace-nixons-new-economic-policy/ Accessed on September 21, 2017

economic pressure. It also has established that closing the gold window was already the preferred course of action to preserve the advantageous position of the U.S. dollar as the international reserve currency, *ahead* of the international currency disruptions of May 1971. The analysis here builds on these arguments and focuses on the *timing* of the announcement and the role of supposed economic "crisis," through more primary evidence.

To reiterate a primary finding of Chapter Two and previous scholarship on the case (Block 1977), the perceived complexity of international monetary affairs has the profound effect of disguising what is actually a rather simple matter of distributional politics. In terms of political institutions, it is a shocking feature of the global economy that such a narrow group of actors, working nearly anonymously, has such decisive influence over the shape of the global economy. How does this kind of state power justify itself, and how does it avoid being subject to broader democratic intervention? These questions require us to consider more specifically the socially constructed nature of macroeconomic affairs. The findings of Chapter Two call attention to the political nature of economic decision-making, and the importance of scrutinizing policy decisions' *timing* (Pierson 2000, 2011; Thelen 2000) in particular instances of claimed crisis. Powerful actors are well placed to seize a political opportunity when they use structural economic trends that arise *after* a given economic policy has already become a goal, presenting these trends as "necessary" or "urgently needed" to deal with an economic "crisis," as Nixon did in announcing the closing of the gold window.

The value of the stock market, the annual budget deficit, the inflation rate, or the quantity of gold reserves in this case, can be used to justify particular policy decisions, obfuscating the political nature of active interventions in the economy. Shrewd use of economic "crisis" likely also reduces political costs associated with radical or unpopular economic decisions. Scholarship

should not just try to explain economic crises, but rather question their nature more fundamentally. By examining the presentation of the Nixon Administration's New Economic Program, we can gain insight into how political actors can manipulate the construction of a crisis, as well as when and why such labeling occurs.

Methodologically, primary analysis of timing allows a very simple empirical test. That is, if a decision was made before the events blamed for the decision, this is clearly false. As Chapter Two has established, closing the gold window was already the preferred policy of the U.S. Government before the currency market events of 1971. By reviewing primary documents that show the response to this "crisis", we can go further to question the actual role of these events in the overall political process.

The bulk of the narrative that follows presents the before, during and after of the announcement of the decision to suspend gold convertibility by Nixon in August 1971. It begins where Chapter Two left off in early 1971, *after* closing the gold window was already being actively considered by the Nixon administration. It proceeds to show how public macroeconomic events offered a concrete opportunity to implement the policy, and will present the concept of crisis opportunism to understand this phenomenon.

It is important to emphasize that the social science history of this case largely aligns with, rather than questions, Nixon's own presentation of his policy as a necessary response to a crisis. One analyst concluded that Nixon's move "should have surprised no one who analyzed U.S. balance of payments statistics", as the critical weakness of the dollar became "unstoppable" due to mounting speculation in European currency markets (Gavin 2004: 188-189). Existing accounts— often without primary source analysis – attribute the decision to the closing of European currency markets and the revaluation of the German Mark in May 1971 that caused

another wave of gold purchases at the U.S. Treasury, exacerbating the decline of its balance of payments in relation to its gold supply, which is held as the structural pressure responsible for the end of Bretton Woods (Helleiner 1994, Eichengreen 2008, Gavin 2004). Whether abstract macroeconomic forces or currency market actors, the conventional literature in this case largely promotes the notion that the Bretton Woods economy developed an exogenous pressure forcing the Nixon Administration to abandon the system. The following analysis examines the relationship between this conventional understanding and the political actions of the Nixon Administration.

To be clear, existing explanations of the decision to close the gold window correctly identify the importance of the structural context in which Nixon acted. This context is not the same as a causal argument, however. Based on evidence from the Nixon tapes and archived discussions of the Volcker Working Group, this analysis asks what role market forces and actors played in this major moment of change, if not a direct causal one. More broadly, this study questions the role of economic "crisis" as self-evident and, therefore, the analysis departs significantly from the current understanding of these events.

The publicly available recording of Nixon's supposedly last-minute decision to dodge an international run on the dollar actually shows the President agreeing with Secretary of Treasury Connally's musing on August 12, 1971, that the United States need not "think in terms of a monetary crisis", that they could simply "pay out" their gold losses in the midst of European speculation (Nichter 2015: 237). Still, Nixon, in his speech announcing the decision only three days later, on August 15, 1971, referred to fighting a "crisis," "an all out war" against the American dollar and about "an urgently needed" new monetary system. How do we explain this duality? The analysis will systematically examine the timing of the decision's announcement,

arguing that macroeconomic trends were less a serious structural threat than they were a political opportunity because they could be framed as a "crisis," and a crisis could be used to justify a bold decision by the U.S. to act unilaterally to end the Bretton Woods agreement. That is, the "crisis" was used as a justification to announce a policy change that had been already made earlier in the year, but left unresolved in terms of timing because of its provocative nature. We will find that the timing was not determined by a perception of macroeconomic constraint, but rather a desire to avoid potential political backlash from the IMF members and the U.S. Congress.

"Crisis" in Context: National and Personal Interests in International Monetary Reform

The standard explanation for why the gold window needed to be closed emphasizes the structural problem within the Bretton Woods system, known as the "Triffin Dilemma" for its original author, economist Robert Triffin. Triffin (1960) pointed out that the United States tended to accrue deficits as the issuer of the international reserve currency- most international transactions were mediated by the dollar as a common denominator, and the world's central banks largely held dollars as their source of liquidity, rather than gold. Nixon's advisors were aware that this "monetary dominance"[64] allowed the U.S. Treasury significant leeway in domestic policy, and an extraordinary pool of credit to finance its global military apparatus (Eichengreen 2010, Gavin 2004). Many viewed this as a sort of indefinite blank check for the U.S. (Williams 1977), but Triffin's observation was that, under a system of controls on the movement of capital, eventually the flood of dollars outside the country would undermine the dollar's value under the Bretton Woods gold-exchange system (Triffin 1960). Indeed, as the

[64] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 5/7/71

major postwar economies regained competitiveness through the Bretton Woods period, and trade between them expanded, the world was flooded with ever increasing supply of dollars (Block 1977), and the Treasury's supply of gold began to dwindle. Critical to our analysis, large speculative sales of dollars for European currencies forced the German Mark and several other currencies to revalue in May 1971, which is taken by analysts as the critical blow to the U.S. Treasury's already tenuous position that necessitated Nixon's actions (Eichengreen 2010, Gavin 2004).

The data reveal that the August 1971 announcement of closing the gold window was not a response to a sudden critical blow but came as the culmination of years of study behind closed doors on the subject of international monetary reform, and public conversations on the sustainability of the system. While it was well known by 1968 that monetary reform was on the agenda of the IMF, Nixon's August 1971 move still came largely as a surprise to the domestic and international public (Gavin 2004, Silber 2012). However, the U.S. Executive Branch had been studying reform for several years before then, and the interests motivating this can be characterized best as American national political interests rather than an interest in the maintenance of the international order per se (Zoeller 2019).

The evidence also shows that Nixon was greatly concerned about his re-election coming up in 1972, and was convinced that he needed to bring down unemployment as the U.S. was in the midst of a minor recession. As Nixon revealed in a conversation with Peter G. Peterson, Assistant to the President for International Economic Affairs: "I've never seen anybody beaten [in elections] on inflation in the United States. I've seen many people beaten on unemployment" (Nixon tapes, Conversation 546-2, July 26, 1971). A devaluation of the dollar, eventually achieved by closing the gold window, would actually serve as an expansionary domestic

monetary policy that would impact unemployment.

It is important to note that the *expansionary* domestic monetary policy was not necessary. In addition to fiscal cuts, the balance of payments deficit and loss of international reserves that the U.S. was experiencing in 1971 could have been corrected by a *tighter* domestic monetary policy. However, Nixon pushed for just the opposite, monetary expansion, even as then-Federal Reserve Bank Chief Arthur Burns warned against it, saying at one point: "If we flooded the banks even more than we have I think you could have awful problems in 1972 and beyond" (Nixon tapes, Conversation 454-4, February 19, 1971 with Nixon, Treasury Secretary John Connally, Burns, Shultz and Council of Economic Advisors Chairman Paul McCracken). This view, that U.S. monetary policy was already too expansionary, was also shared by Milton Friedman, the famous Chicago economist who visited Nixon in the White House in June 1971 (Nixon Tapes, Conversation 514-8, June 8, 1971, with Nixon, George Shultz and Milton Friedman). However, expansionary monetary policy, both domestically at the Federal Reserve and internationally at the gold window, would, in Nixon's view, help reduce unemployment, a card he wanted to bet on for winning re-election (Abrams and Butkiewicz 2012, Nichter 2015). Closing the gold window was thus a preferred action furthering Nixon's political agenda to be reelected.

Indeed, many alternative courses of action were considered by economic advisors to deal with the structural pressures on the dollar due to the gold-based fixed exchange rate system, but, as Zoeller (2019) explains, the decision to close the gold window became the preferred course of action in early 1971, that is, well before the May 1971 events.

Crisis as Justification: Announcing the end of Bretton Woods

Nixon announced his decision to close the gold window on August 15, 1971, when he described a package of reforms known as the New Economic Policy, to target "unemployment, inflation, and international speculation." In his televised speech to the nation that Sunday evening in August 1971, Nixon referred to a series of what he called international monetary *crises*, and a necessity to counter "an *all-out war*" by international money speculators, together with a need to engage in "*necessary* action to defend the dollar," as well as his commitment to setting up "an *urgently needed* new international monetary system." On the whole, Nixon created a sense of an economic crisis, and emphasized how his policy actions, couched in the New Economic Policy, are urgently needed to bring stability and increase jobs. Here are the relevant excerpts of Nixon's speech, which deserve to be quoted at length to get a sense of his persuasive rhetoric:

> *Prosperity without war requires action on three fronts: We must create more and better jobs; we must stop the rise in the cost of living; we must protect the dollar from the attacks of international money speculators… The third indispensable element in building the new prosperity is closely related to creating new jobs and halting inflation. We must protect the position of the American dollar as a pillar of monetary stability around the world. In the past 7 years, there has been an average of one international monetary* ***crisis*** *every year. Now who gains from these* ***crises****? Not the workingman; not the investor; not the real producers of wealth. The gainers are the international money speculators. Because they thrive on* ***crises****, they help to create them. In recent weeks, the speculators have been* ***waging an all-out war*** *on the American dollar. The strength of a nation's currency is based on the strength of that nation's economy--and the American*

economy is by far the strongest in the world. Accordingly, I have directed the Secretary of the Treasury to take the ***action necessary to defend the dollar*** *against the speculators. I have directed [Treasury] Secretary [John] Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets… The effect of this action, in other words, will be to stabilize the dollar… To our friends abroad, including the many responsible members of the international banking community who are dedicated to stability and the flow of trade, I give this assurance: The United States has always been, and will continue to be, a forward-looking and trustworthy trading partner. In full cooperation with the International Monetary Fund and those who trade with us, we will press for the* ***necessary*** *reforms to set up* ***an urgently needed*** *new international monetary system… I am determined that the American dollar must* ***never again be a hostage*** *in the hands of international speculators. I am taking [steps] to protect the dollar, to improve our balance of payments, and to increase jobs for Americans (emphases in bold added).*[65]

Announcing the decision to close the gold window, President Nixon cited urgent need to strengthen the domestic economy and avert international monetary crisis. However, as we will show below, this closing of the gold window in August 1971 was not really due to an unavoidable economic crisis that needed to be urgently solved in this particular way. As we will demonstrate, the "crisis" Nixon referred to was actually an *opportunity* for the U.S. to push through its preferred course of action, one that had already been decided. While much of the

[65] Transcript of a video of televised speech, "The Challenge of Peace: President Nixon's New Economic Policy," delivered on August 15,1971, available on Nixon Foundation website: https://www.nixonfoundation.org/2014/08/challenge-peace-nixons-new-economic-policy/ Accessed on September 21, 2017

world preferred that the structural pressure be handled by American fiscal or monetary contraction - *and maintaining the Bretton Woods system* – by early 1971, the American position came to be unilateral action to end the convertibility of the dollar into gold, and Nixon was waiting for an opportune moment to announce it that would fend off potential backlash, and minimize political cost.

Before the "Crisis": Consideration of Alternatives

In 1965, the Lyndon Johnson Administration commissioned what became known as the Volcker Working Group (VWG), led by Paul Volcker (then under secretary of the Treasury for international monetary affairs and a future Fed chairman) to study the issue of international monetary reform. The purpose of the Working Group was to make recommendations on different proposals to reduce "vulnerability to political and economic pressure through the threatened conversion into gold of any overhang of official dollar balances"[66]. In a secret memo, Johnson directed the Group to

> *"take full account of the interrelations between our monetary and economic objectives, and our more general foreign policy objectives. It should explore the entire range of actions open to the United States, which would bring to bear our economic strength, and our political strength, to secure reform which would be desirable in terms of the full range of our objectives."*[67]

Given commitments to military engagement in Vietnam, domestic spending, and the interest in maintaining American economic superiority, the strategy was to achieve a devaluation of the dollar rather than using contractionary fiscal or monetary policy to defend the dollar's

[66] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 6/16/1965
[67] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 6/16/1965

international position against rising deficits and speculation. A devaluation would correct these deficits in liquidity to achieve export gains, increase the gold supply, and defend the dollar as the international reserve currency.

The Working Group was comprised of high-level members of the Treasury Department, the State Department, the White House, and the Council of Economic Advisors. The group was given and maintained significant authority over the execution of international monetary reform, without Congressional oversight and in direct concert with the White House (Gowa 1983). Key members of the overall executive body on this issue were Paul Volcker, the eventual chair of the Group (and, later, the Chairman of the Federal Reserve during the Reagan Administration), and his deputy George Willis, a long time Treasury staff member. Another important figure was George Shultz, Director of the Office of Management and Budget, who would go on to serve as Secretary of Treasury under Nixon in his second term, and as Secretary of State under Reagan. Shultz, along with Secretary of Treasury John Connally, was part of Nixon's inner circle when it came to closing the gold window. Connally was appointed by Nixon to the head of Treasury in early 1971, with little knowledge of international monetary affairs (he was not an economist)[68] but with great charisma and political skill. It would appear that Connally, as he assumed the Treasury Secretary position in early 1971, took the action of closing the gold window as one of his priorities, given that he was instrumental in moving the policy forward in consultation with the Working Group, the Council of Economic Advisors (CEA), and the American executive director for the IMF, Bill Dale. Dale was a key voice in articulating the international political situation, and developing American strategy for monetary reform.

The archival evidence reveals that the process of international monetary reform was not a

[68] Connally was a former naval officer later trained in law, serving briefly as a lawyer notably for Texas oil magnate Sid Richardson before rising rapidly into office as Secretary of the Navy, a position he left for a successful campaign for the governorship of Texas.

neutral process of shoring up the liquidity of the international monetary system, but a political battle over who should bear that burden. In 1969, the *New York Times* made this observation, noting that American-led discussions of exchange rate flexibility were about making currency revaluations more "politically palatable".[69] However, as international negotiations proceeded, it became clear that the rest of the world preferred the onus be on the United States. A German delegate summed up these views, suggesting that domestic policy should be used to address the shortfall in global liquidity, given that U.S. deficits were driving this shortfall[70]. However, rather than sacrificing domestic economic growth, the Americans aimed to correct their deficits by altering the international monetary system.

The senior officials responsible for U.S. international economic policy showed an astute awareness that market actions could easily be construed as autonomous events that preclude political initiative. In the late 1960s, the preferred U.S. option for exchange rate flexibility was a "crawling peg", which would actually alter the par value of currencies relative to gold, gradually and in a carefully managed way. The strongest, and preferred, form of this U.S. proposal was an "automatically adjusted" crawling peg, where par values would migrate not by government policy, but by an algorithm based on market activity. This would prevent the "bias toward devaluation" by removing exchange rate adjustments from state hands. In this way, deference to market mechanisms in lieu of political choice was explicitly recognized as a "sleight of hand" that was intended to actively achieve political goals, rather than economic efficiency. In a written statement, Bill Dale, the instrumental advocate for U.S. interests within the IMF, noted that the beauty of the automatic adjustment system was that it would be,

first and foremost a decision-making system which substitutes… for the existing

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[69] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/4/69
[70] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/69

> *procedure of each individual government coming separately to its own conclusion that its exchange rate needs to be changed… The advantage would be the presumed 'objectivity' and disinterestedness of the market; the disadvantages, that markets can be wrong at times, and that the government concerned would be hard put to resist intervention with an eye to influencing the future parity (in which case the claim of objectivity would be thinner).*[71]

Dale's analysis of the crawling peg plan nicely illustrates a common characterization of a neoliberal policy - transferring functions to markets away from other institutions as a conscious political strategy to hide the political nature of the economic change. This strategy relies on the conception of an autonomous market (Hay 2005, Block and Somers 2014, Krippner 2011), following an "objective" self-regulating internal logic outside of social/political influences, but the policy is actually implemented to achieve a political goal. In this case, allowing market mechanisms to govern exchange rates would increase the likelihood that foreign currencies would rise relative to the dollar. Note, however, that Dale was well aware that objectivity of the market is "presumed," and he emphasized that by putting the word objectivity in quotes to indicate that objectivity of markets is in no way self-evident.

During 1969 and 1970, the VWG (through Bill Dale) took the crawling peg proposal to the IMF's Group of Ten (G10) for negotiation. The VWG cautioned the U.S. representatives to the IMF to deny publicly that flexibility was a substitute for domestic policy to reduce deficits[72]. Rather, the functioning of an autonomous international monetary system was portrayed as a *universal* interest, rather than a one-sided, American, one. Dale presented exchange rate

[71] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/11/70
[72] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 9/14/70

flexibility as important "*less to ourselves* than to the rest of the world" [italics added][73]. While Bill Dale and George Willis, Volcker's Deputy on VWG, publicly reaffirmed the IMF's desire to strengthen the IMF's ability to coordinate policy[74], the United States was seeking to tip the system in their favor by realigning exchange rates to deal with their own deficits. Willis summarized the U.S. negotiating objective to the VWG as a "shift in the psychological environment"[75], and an "educational effort"[76] to encourage other countries to redirect their surpluses away from the United States.

Significantly for our analysis of the crisis, two years prior in 1968, Hendrik Houthakker, a member of the Council of Economic Advisors, had stated to the Working Group that a diplomatic push toward exchange rate flexibility "might be interpreted as a determination that our balance of payments problem cannot be solved within the present system". However, as Houthakker continued, if flexibility initiatives were "first advanced *at a time of crisis*… precautions may not be necessary" [italics added].[77] As such, Houthakker seemed to have been well aware that an economic situation, which can be framed as a "crisis," could be an opportunity to push a controversial policy action.

Response to Crisis: Necessity or Opportunity?

The specifics of planning of the closing the gold window dates to a series of memos between late 1970 and early 1971. It is said that President Nixon himself was enamored by a

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[73] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 4/27/70. The quote emphasizes that the American negotiating position was built on a *systemic* concern, rather than a one-sided one. The United States, here, is employing the familiar structural argument to present its interest in reform as necessary for the world given the macroeconomic constraints of Bretton Woods.

[74] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 2/14/69

[75] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/13/70

[76] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/27/70

[77] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 8/19/68

presentation toward this end by Pete Peterson in January 1971 (Nichter 2015), and archival data give ample evidence that his advisors had pivoted to unilaterally ending the fixed-rate system even before this. The critical aspect of the findings here is that Nixon's preference for closing the gold window significantly pre-dates the May 1971 currency markets fluctuations. As World Bank data reveal, the Treasury's gold reserves in 1970 were not significantly different from their 1969 levels, and while Treasury did anticipate some losses in 1971, they were not viewed as critical. For instance, a February 1971 memo from Volcker to George Willis titled "Financing the 1971 Deficit – and Beyond 1971" laid out projections for $2-3 billlion in "non-recurrent" gold losses in 1971. This was over and above cyclical transactions. Volcker noted two courses of action, indicating two key points for our analysis of the "crisis." The first course of action was to simply "pay out this gold and make no change in present convertibility procedures". The second alternative, which was embarked on shortly after, was to "begin in 1971 the transition to a different system, using the heavy non-recurrent drains on our gold and other reserves in 1971, which may not be repeated for several years, as a justification"[78]. The choice to act in 1971 would not only assuage future concerns about the dollar, but it also had the advantage of being a non-election year for the president, and would allow a year of experience with flexible exchange rates before IMF's Special Drawing Rights activation, that is, supplementary foreign-exchange reserve assets defined and maintained by the IMF since 1969.[79] It is important to note that these considerations were made well before the public drains to the U.S. gold supply in the wake of the May 1971 currency revaluations.

By unilaterally closing the gold window, the U.S. was able to push through its devaluation initiative, over and above the political objections of other G10 member countries.

[78] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 2/22/71
[79] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 2/22/71

While doing this, the U.S. relied on the perception that closing the gold window was "necessary" and "urgently needed," as codified in Nixon's speech announcing the decision, to stabilize the international monetary system. However, this was a cover for what was actually a pro-active choice to act unilaterally. While standard accounts trace the critical events that precipitated the decision to May 1971 when the European currency markets were forced to close, the decision to end the convertibility of the dollar to gold was not a direct response to these gold losses or increasing monetary instability in 1971, but rather was an attempt to force the rest of the world to shoulder the burden of maintaining the strength of the dollar by adjusting exchange rates, and was something that played well into Nixon's re-election strategy. As discussed earlier, closing the gold window would represent an expansionary policy domestically, that would address unemployment that Nixon wanted to use as a re-election platform. While the international effect of closing the gold window, as discussed, would be a devaluation of the U.S. Dollar that improved its overall balance of payments, this had domestic appeal as well. The balance of payments adjustment would mean a boost to U.S. exports, and would bring some of the overly abundant dollars back into the country. This was effectively a domestic stimulus through international policy.[80]

That Nixon's decision was a political concern is highlighted by the fact that plans to close the gold window significantly pre-date the international monetary turbulence of May 1971. Suggestions that closing the gold window was the best option came from Bill Dale in late 1970, and the first detailed plan to follow this suggestion came in January, 1971. The plan outlined a suspension of gold convertibility aimed at a devaluation to achieve a "U.S. official settlements

[80] Concern over this was significant- Nixon had to overrule Arthur Burns and several others, who objected that the devaluation stimulus would pose a significant danger of inflation.

surplus… in the range of $2-3 billion per year" [italics added].[81] The advantage of this devaluation would be "an export-led upturn." [82] The timing suggested in this proposal was dictated by its negotiating strategy: the plan was to use the September meeting of the IMF to hold gold convertibility hostage in order to negotiate a "uniform appreciation of the currencies of all Fund members."[83] Therefore, closing the gold window before September would maximize American political leverage at the scheduled IMF meeting.

In May of 1971, all the pieces came together. Speculative purchases of German Marks, among other currencies, forcing several West European governments to close exchange markets that were flooded with U.S. dollars. When markets resumed normal operation, the Mark was allowed to stabilize at a new, higher price. So- was this the critical strain on the U.S. dollar that made the Nixon Administration's plans to close the gold window an imperative, rather than a preference? As an initial response to the German revaluation, the Volcker Group proposed three viable options to the Secretary of Treasury as a response to the "crisis". First, they could "take a firm stand with the Germans to hold their current parity"[84], that is for Germany to stick to the Bretton Woods agreement. While Volcker would express doubts about the long-term success of this plan, he certainly saw corrective action against the German revaluation as a viable option in the short term. This is evidence for us that in no way did the German devaluation restrict the American options to one, namely, the announcement of the closing of the gold window. The second option proposed was essentially inaction, allowing currency market actors to either stabilize or further destabilize the exchange rates. To the extent that untenable monetary crisis *did not* develop, however, Volcker speculated that this would "[provoke] more intensive

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[81] This is an "Eyes Only" memo, without a listed author. It has the White House declassification tag and was distributed to the Volcker Group.
[82] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 1/28/71
[83] *Ibid.*
[84] National Archives II, Record Group 56, Box 1-13: 5/7/71

defensive reactions in Europe to our [American] monetary dominance."[85] Volcker's statement here is indicative of the general view among policymakers that crisis itself was a political problem rather than an economic one, by virtue of their power to remake economic institutions as they saw fit. For this reason, "economic crisis" was viewed as potentially useful rather than damaging.

The third option put forward by Volcker was to "permit, and even encourage, a progressive disintegration of the structure of the fixed rates with the objective of seeking far-ranging reforms"[86]. The "far-ranging reforms" referred to here were of course to be intitiated by a suspension of gold convertibility, which was not a new idea but rather the main policy being studied by the Treasury at this point (Zoeller 2019). And here, policymakers acted consciously on their knowledge that economic circumstances are *perceived* as external, and therefore exonerate conscious political action. Within a day of Volcker's memo to the Secretary, an Eyes-Only Presidential memo was issued coordinating strategy across Treasury, State and Defense along the lines of this third option. As stated by the White House, "it is only *in an atmosphere of crisis* and disturbance that…important changes in the policies of European countries and Japan can be brought about [emphasis added]."[87] These changes refer to the devaluation of the dollar, but also more broadly toward the Marshall Plan legacy of economic assistance and defense spending in Europe and Japan. The response to "crisis" was an "opportunity…to undertake negotiations on these major issues."[88] The White House then explicitly intended to "permit foreign exchange crisis to develop without action or strong intervention", and "at an appropriate time when there is growing realization that substantial changes will need to be made, the U.S.

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85 *ibid.*
86 *ibid.*
87 National Archives II, Record Group 56, Box 1-13: 5/8/71
88 *ibid.*

should indicate its own preferred solution," which was now made explicit as the "suspension of gold convertibility," and engage in "diplomatic and financial intervention to frustrate foreign activities which interfere with the attainment of our objectives."[89]

The concerns with this course of action, again, had little to do with objectively untenable structural economic conditions, but with the response of foreign countries, which were expected to want to "reduce U.S. hegemony in the international economic and financial area" and "to capitalize on any frictions which may develop to weaken U.S. ties with other European nations and to urge the use of restrictions on capital transactions as a device for restricting the operations of U.S. firms in Europe and reducing European dependence on U.S. high technology equipment."[90] Revisiting the Triffin Dilemma itself produces a range of theoretical options the U.S. could have used to correct its longer term concerns. That is, the theoretical untenability of the situation was premised on the mix of deficits, capital controls, and fixed exchange rates. Of those three, two of them were more unpalatable politically.

European countries were also expected to make "public attempts to place all responsibility for the monetary crisis on the U.S."[91] This all reveals that economic circumstances were not an objective "crisis" to force an inevitable urgent response to close the gold window, but rather an opportunity to "begin the transition to a different system, using the…drains on our gold and other reserves…as a *justification* [emphasis added]"[92].

Deploying "Crisis": Timing of the Decision's Announcement

Revisiting the original plan of January, 1971, the date for announcing the closing of the

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89 *ibid.*
90 *ibid.*
91 *ibid.*
92 National Archives II, Record Group 56, Box 1-13: 2/22/71

gold window was established for September, intended to "concentrate action within a two week period…of the IMF Annual Meeting."[93] Immediately prior to the meeting, Nixon would have announced that the U.S. was suspending sales of gold, and begin negotiations on a new set of realigned par values. The timing seemed strategic because the U.S. would have "the various groups of foreign officials at hand with which international negotiations would be orchestrated."[94] This timing would be accelerated, however, as the White House realized that receiving approval of this action from the U.S. Congress might be difficult.

This is revealed in the most proximal record of the decision to close the gold window from the Nixon Tapes, in a conversation on August 12th, 1971 – just three days before the public announcement on August 15th – between President Nixon, Treasury Secretary Connally, and Director of the Office of Management and Budget, George Shultz. It was then that Secretary Connally reflected to President Nixon that, "we have been actively discussing this [announcement of closing the gold window] since the [German] Mark crisis in the spring [of 1971]."[95] The VWG's idea was to announce before the annual IMF meeting in September. September was also when the Congress returned to session. Connally argued that it was preferable to accelerate the timeline to avoid being "nibbled to death"[96] by the rigors of Congressional involvement, suggesting that not all Congress members would view the closing of the gold window as "urgently needed" to prevent "a crisis," as Nixon portrayed it in his announcement.

An important piece of evidence that May 1971 events were not the structural tipping point is the fact that the Treasury, under Connally's leadership, was becoming

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93 National Archives II, Record Group 56, Box 1-13: 1/28/71

94 *ibid.*

95 From Nixon tapes, quoted in Nichter (2015: 252)

96 From Nixon tapes, quoted in Nichter (2015: 237)

fully prepared to close the gold window months before these economic events. They had already engaged in a full legal analysis of the authority of the President to take this action without Congress. That is, in secret, the Treasury Department had been conducting legal studies throughout March of 1971 on how to close the gold window without the permission of Congress. Under Section 5 of the Bretton Woods Agreement Act, "the United States cannot propose or agree to a change in the par value of the dollar unless such action has been authorized by Congress"[97]. However, a legal study dated March 31st, 1971 determined that under Section 8 of the (old) 1934 Gold Reserve Act, "*With the approval of the President*, the Secretary of the Treasury may purchase gold in any amounts at home or abroad…at such rates and upon such terms and conditions as he may deem most advantageous to the public interest [italics added]."[98] Further, there was "ample authority under the… Emergency Banking Act of 1933 to close exchange markets in the United States." While these laws were enacted before the Bretton Woods Agreement, they would allow Connally and Nixon to close the gold window without Congressional approval. Just as the impetus was more political than economic, the concern with Congressional involvement was more political than legal.

For Nixon, a significant motivation for closing the gold window was to strengthen the dollar without damaging the domestic economy through fiscal or monetary contraction, as the Europeans wished, particularly with the 1972 election looming, and his conviction that addressing unemployment is key for reelection (Abrams and Butkiewicz 2012). Thus, closing the gold window was not a response to urgent monetary "crisis" in May 1971, but an already decided policy preference that only needed a crisis

[97] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 5/4/71
[98] National Archives II, Record Group 56, Entry A1-952, Box 1-13: 3/31/71

as justification. In fact, Connally stated explicitly on August 12, 1971, three days before Nixon announced the decision:

> *I don't think we ought to think in terms of a [structural monetary] crisis. We're lined up here with six billion dollars. What the hell difference does it make whether we've got six or ten billion, in the final analysis.* ***I'm not worried about that, that doesn't worry me in the least****, that's the reason I was thinking we [unclear] pay it out, I couldn't care less. We owe thirty billion, so what, so we can't pay it [unclear] if they call us. That [structural pressures on the dollar]* ***isn't the critical point*** *(*from Nixon tapes, quoted in Nichter 2015: 237, emphasis added).

It is clear from Connally's statement that the actual immediate or urgent structural pressure on the dollar because of Spring 1971 gold losses wasn't "the critical point," and the U.S. could "pay it out." This adds credence to the idea that it was the *appearance* of that structural pressure, which could be framed as a "crisis" that could be shrewdly used as justification to push for a policy action that was already decided upon. The decision to close the gold window was finalized in Nixon's office on August 12th when he said: "I think we ought to go Monday [August 16, 1971] with the whole ball" (Nixon Tapes, Conversation 273-20, August 12, 1971, Nixon, Connally and Shultz). In fact, Nixon's public announcement came on Sunday, August 15th in a televised speech to the nation.

Discussion

While scholars have spent significant attention on what explains economic crises, most recently the financial one in 2008, sociologists have not made economic crisis an object of

inquiry in its own right. But understanding when something becomes labeled as a crisis (or when not), in relation to which stakeholders, and with what consequences, is an important aspect of a sociological understanding of the economy.

The conventional history of the case identifies dangerously depleting U.S. gold reserves as an underlying cause to close the gold window, triggered to a critical level in May 1971. The ability of the United States to maintain global liquidity, in its role as the issuer of the international reserve currency as set by the Bretton Woods agreement, was constrained by its tendency to accrue deficits due to this very same status of the dollar, given fixed exchange rates and mobile capital. These were actual structural conditions of the economy. Conventional history considers speculation against the dollar in Spring 1971 as putting critical pressure on the U.S. supply of gold, *necessitating* the end of fixed exchange rates, in lieu of controlling international capital flows (Helleiner 1994). The assumption of this standard analysis is that the macroeconomic changes more or less dictated U.S. policymakers to take a unilateral decision to close the gold window in August 1971.

It is important not to deny the reality of economic trends, but we should question their autonomy from politics and the naturalness of structural economic pressures in May 1971 necessitating the closing of the gold window in August of 1971. Macroeconomic indicators behaving outside of what experts would recognize as a normal range, in this case the shortfall between dollars and gold, provided the U.S. President and his cabinet with *an opportunity* to push their politically preferred policy alternative, that is, the American unilateral suspension of fixed exchange rates. Nixon's repeated reference, in his August 15th, 1971 speech, to an "urgently needed" and "necessary" response by the U.S. against "an all-out war" waged by international speculators, and his determination to stabilize the dollar in order to protect jobs,

portrays the situation as an economic "crisis," which removing of the fixed exchange rates will conveniently solve. This is not to say that Nixon would never close the gold window if he didn't frame the international currency markets situation as a "crisis." But our evidence does point to the fact that waiting for the right timing to do so was crucially important (specifically doing it before the IMF meeting and before Congress came back from summer break), in order to avoid potential backlash and political costs.

Indeed, the domestic reception of the decision largely demonstrates the effectiveness of Nixon's ploy. *The New York Times* Editorial (August 16, 1971) reported:

> *After months of drift, President Nixon has moved with startling decisiveness to stabilize the dollar and spur economic growth. The comprehensiveness of the program he announced last night makes immediate assessment of all its details impossible, but we unhesitatingly applaud the boldness with which the President has moved on all economic fronts.*

The Associated Press (AP) reported that "industry executives and economists agree in general that the nation will benefit – through lower export prices…from the President's decision to stop paying out gold", repeating Nixon's assertion that this would curb speculation against the dollar. However, as we know in hindsight, the policy was hardly meant as a response to foreign currency speculation, or any short-term vulnerability of the dollar. A headline from AP's London Bureau read "Foreign pressure on dollar severe", but the content of this report largely focused on confusion and concern in European and Japanese markets. Much of the response was directed at the issue of the import surcharge announced by Nixon, rather than the policy of closing the gold window. This was especially true of U.S. based coverage- the primary headline stories focused on the domestic action – namely the 90-day wage and price freeze – which was in fact Nixon's

hope. This reception of the structural need to close the gold window is generally mirrored by the academic literature that has focused on this case, and has viewed Nixon's actions as a necessary response to autonomous critical international currency markets pressure.

The discussion in the Volcker Working Group, and among President Nixon and advisors, showed that the U.S. did not view its lines of action to deal with the pressures on gold reserves as structurally determined by the macroeconomic circumstances of 1971. The alternative explanation is that the *perception* of economic circumstances requiring action – i.e. using "crisis" as an opportunity and as a justification – allowed the Nixon Administration, very self-consciously, to justify unilaterally closing the gold window in August 1971. Closing the gold window was already the top policy preference among U.S. strategists well before the supposedly decisive May 1971 events. This unilateral move allowed Nixon to pursue the U.S. geopolitical interest in continued monetary hegemony, while at the same time meeting his goal of lowering unemployment to increase reelection chances (cf. Abrams and Butkiewicz 2012). The policy choice to close the gold window was made significantly before any May 1971 "crisis" emerged. Still, it was the *timing* of the decision's implementation that remained uncertain, and "crisis" was used strategically to announce this decision and avoid potential backlash and political costs.

The May 1971 events that put further structural pressures on the U.S. gold supply, therefore, were leveraged as an opportunity to take action because they allowed the U.S. to present the policy change as necessary to deal with "a crisis". This was more palatable politically, at least within the U.S., than revealing a proactive pursuit of U.S. domestic interests in the international arena, and Nixon's reelections calculations. The ultimate structural boundary of the U.S. gold supply was real, but not decisive. The fact that plans for closing the gold window had previously been rejected by U.S. policymakers was significant, but their mere

existence clearly paved the way for this and future reforms. As Milton Friedman famously wrote, "only a crisis, *actual or perceived*, produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies…*until the politically impossible becomes politically inevitable*" (Friedman 1982, emphasis added). In fact, it was Friedman himself who capitalized significantly on this 1971 "crisis" as well, as his ideas gained significant legitimacy in public policy in the post-Bretton Woods period. The next episode in this sequence of events takes us to the aftermath of this shock, when the United States Government would have to make policy in this economic landscape of its own creation.

CHAPTER FOUR

The IMF after Bretton Woods: Global Neoliberalism as a State Project

The previous chapters have established the processes by which American policymakers backed themselves out of the postwar global economic system. Likewise, it is well established that the breakdown of fixed exchange rates was a critical turning point in the development of contemporary liberal financial capitalism. The most interesting question, in light of these earlier findings, regards the processes linking the two. Very structurally-driven explanations for the transition have regarded this transition as driven by inherent contradictions of the postwar system. However, what this analysis has so far shown is that the United States did not intend to champion a transition to a different system, and therefore neither abstract principles of motion nor grand design can explain the shape of the global economy that would emerge. Nevertheless, we need an explanation for the fact that private finance emerged from the 1970s as the predominant actor in the global economy.

This question calls attention to the political foundations of contemporary global capitalism, and relies on our accumulated understanding of international economic governance institutions. Over the past forty years, economic policy has come to be dominated by "neoliberal" ideas and practices (Centeno & Cohen 2012) in a variety of policy domains. These policies privilege private rather than state-led economic growth, and engage state power to institute markets in new areas of economic and social life. The ideological component of this policy paradigm is strong, and notable for its sustained hegemony in global political discourse. Described as "market fundamentalism". neoliberal ideology has given the rights of private actors to pursue profits in any institutional context a legitimacy that is hard to challenge. Through this

process, global capitalism has been oriented more and more toward massive and complex financial practices, channeling wealth into a narrow class of individuals and institutions (Lin & Tomaskovic-Devey 2013) and leading to a series of progressively more severe financial crises (Tooze 2018). As financial crises have resulted in the loss of trillions of dollars, market fundamentalist ideology has been deployed to justify harsh austerity in the aftermath (Tooze 2018; Block & Somers 2014; Blyth 2013). Nevertheless, the reorientation of policy away from state spending has not entailed a diminution of state power, but rather its forceful redeployment toward furthering market institutions and the rights of private actors in the economy (Slobodian 2018; Block & Somers 2014). How was this achieved?

At the international level, neoliberal policy reforms have been led by international organizations, especially the International Monetary Fund (IMF). Scholars have long pointed to the IMF's "conditional lending" programs as a major force in shaping economic policies toward neoliberal models globally, mandating austerity and major reorientations of the economy to countries under duress (Chorev & Babb 2009; Vreeland 2006; Babb 2005; Stiglitz 2002). The IMF's role has always been ostensibly to help finance individual countries' international deficits through lending, but this lending has often come at a cost. IMF "conditionality" means that, in order to receive a loan, the country experiencing a deficit is required to implement a series of policy changes. In the era of "structural adjustment" programs since 1985, these policy conditions have amounted to major cuts in social spending, public employment, and labor rights, along with privatization and financial liberalization (Babb 2005). While the loans have typically been short-term, the reorientation of developmental states toward a neoliberal paradigm has largely endured. This has corresponded to the global dissolution of "embedded liberalism" (Ruggie 1982) as a model of capitalist organization, as the transfer of state prerogative to private

actors has proved difficult to reverse. Therefore, scholars rightly view international organizations like the IMF as key institutional foundations of the contemporary global policy paradigm, making the origin of this shift within the IMF a key puzzle toward understanding contemporary neoliberal globalization.

Institutionalist accounts of the IMF's neoliberal stature have traced its causal origin to the shift in economic ideas that accompanied the Reagan and Thatcher governments during the 1980s (Hall 1993), made significant headway in the economics profession during this time (Fourcade 2006), and ultimately came to dominate thinking within the bureaucracies of international organizations such as the IMF (Kentikelenis & Babb 2019; Harvey 2007). This normative revolution within the "Fund" bureaucracy is a central case for constructivist theories of international organizations that argue for their autonomy from powerful states (e.g. Barnett & Finnemore 2004), and a great deal of institutionalist scholarship treats international organizations as primary agents of policy change. Applied to the IMF, these theories typically reject state interests and contentious politics as direct influences on that organization's behavior. Indeed, most contemporary analyses of the IMF attribute its significant role in the diffusion of neoliberal policy to changes in its organizational norms, facilitated by changes in key staff positions and leadership during the 1980s (Kentikelenis & Babb 2019). However, newer scholarship is adding causal complexity to the institutionalist view of international economic governance, exploring how normative transformation and material interests may interact in global institutional change (e.g. Kentikelenis & Babb 2019; Kentikelenis & Seabrooke 2017; Fairbrother 2014).

This trend is productively advanced in recent work by Kentikelenis & Babb (2019), who argue that both the normative transformation within the IMF staff and the interests of the United States should both be viewed as necessary conditions for the implementation of structural

adjustment programs in 1985. This framework, while a constructive synthesis, still maintains two primary features of the dominant institutionalist view of global governance. First, it still holds that the IMF itself first proposed the shift to a neoliberal paradigm, which then caught the interest of a U.S. Government that had been previously skeptical of the IMF. Second, it describes the institutionalization of neoliberal policy in the IMF as a normative one, achieved without formal institutional change or overt contentious politics. The present article uses a complementary methodology, examining earlier strategy and initiatives of the U.S. Government in order to evaluate this thesis.

The IMF is fundamentally an organization that mediates international economic losses and gains, in a global economy often characterized by volatile and asymmetric flows of resources (Dreher 2009; Williamson 1983). From a historical institutionalist point of view, its policy would be expected to result from direct conflict over how costs and resources are distributed (Chorev 2007; Peters, Pierre & King 2005). This should be viewed as an especially promising framework in the contemporary reality of financial globalization, as the IMF has been repeatedly involved in mandating austerity in the wake of severe financial crises in peripheral or semi-peripheral countries (Kentikelenis, Stubbs & King 2016; Babb 2005; Stiglitz 2002). The concept of "systemic risk" has become a novel political concern of this era (Centeno et al. 2015). If the sheer quantitative magnitude of accumulated financial risk outstrips the capacity of individual banks or even national governments to guarantee or constrain it, who will pay the eventual cost? This question implies an analysis of distributional politics within institutions, as many scholars have usefully applied to explain the development of neoliberal policy and austerity at the national level (e.g. Hung & Thompson 2016; Krippner 2011; Martin 2010).

By focusing on the process of IMF reform during the 1970s, in the context of rapid expansions of international financial markets, we may ask whether U.S. action decisively shaped the orientation of the IMF before later normative transformation in its staff took place. Viewing the neoliberal expansion of IMF conditionality from a perspective of resource conflict will show that austerity policy was intended to safeguard the interests of private banks during the 1970s, just as it was during the formation of structural adjustment through the 1980s. U.S. Government initiative on behalf of private financial interests, therefore, was both historically and causally prior to the later dominance of neoliberal ideology within the IMF staff. The following section reviews literature on neoliberalism, international organizations, and IMF conditional lending, highlighting the theoretical value of challenging current institutionalist assumptions about international organizations and institutionalized policy paradigms. The empirical analysis uses process tracing to evaluate how the United States approached IMF conditional lending in the context of global financialization during the 1970s. The conclusion will summarize the contribution of this analysis to our understanding of the IMF's history and global economic governance, and suggest further ways to use distributional conflict as an analytical framework in global and transnational sociology.

Historical Background

The IMF was originally created in 1944 to hold together an arrangement, largely between major industrial powers, of fixed exchange rates. This system was designed to prevent internationally competitive exchange rate policy, fixing currencies to the dollar by way of the dollar's convertibility to gold at a fixed price. While exchange rates could be changed in the event of a "fundamental disequilibrium", it was expected that fixed exchange rates would cause

some imbalances in international payments, leading some countries to experience deficits and others a surplus (Helleiner 1996; James 1996). The role of the "Fund" itself therefore was simply to finance these short-term deficits through lending, in pursuit of a longer-term equilibrium in balance of payments between the major industrial powers (Babb 2007; Helleiner 1996). From at least the mid-1950s, austerity was often mandated as a condition of lending (Babb 2007), and this austerity was sometimes very harsh. While the advance to structural adjustment conditions in the 1980s represented a significant expansion of the IMF's mandate (Babb & Kentikelenis 2019; Reinsberg et al. 2019), this may be seen as a continuous evolution from the 1970s, when conditionality was deployed as a method of governing the burgeoning international financial system, as will be documented below.

In 1971, President Nixon announced that the United States would no longer convert dollars to gold, the basic underpinning of the system of fixed exchange rates. Typical of much U.S. international economic policymaking, this audacious move was largely planned and executed by a small group of Executive Branch officials (Zoeller 2019; Zoeller & Bandelj 2019). It was intended to achieve a devaluation of the dollar to achieve short-term gains in national economic competitiveness (Zoeller 2019; Panitch & Gindin 2012), in the context of long-term interest in the strength of the dollar as the international reserve currency (Eichengreen 2011; Helleiner 1996; Block 1977). Going forward, the world's exchange rates would be rapidly liberalized, allowed to fluctuate in response to domestic monetary policy, and significantly in response to global capital flows. The introduction of floating exchange rates caused a huge boom in the flow of capital across international borders, making exchange rates themselves subject to potentially extreme pressure if investments were withdrawn (Williamson 1983).

This increased volume and volatility of foreign investment put significant pressure on exchange rates as international deficits could become critical very quickly. However, the 1973 OPEC oil embargo and consequent spike in the price of oil contributed massively to this problem. As oil-exporting countries saw their revenues increase significantly, oil-importing countries took on large deficits to match. This problem was especially pronounced in the developing world, as oil imports represented a significant portion of their national economic production (Williamson 1983; Lipson 1981). The result was a private-led system of "petrodollar recycling", where the increased oil revenues of the major oil exporters were deposited in Western banks, which in turn lent money to finance the deficits of the oil importing countries. While this dramatically increased the urgency of achieving agreement on the international monetary system, these negotiations took place necessarily as the IMF was left largely without a mandate after the breakdown of fixed exchange rates in 1971 (Zoeller 2019; Kentikelenis & Babb 2019). The fact that many of the world's major currencies were being informally allowed to fluctuate in their relative value meant that many of the world's central banks were in violation of the IMF Articles of Agreement, making a new charter necessary.

The oil price shock proved to be very impactful on negotiations within the IMF about its role in global deficit finance. However, it is important to emphasize that the breakdown of Bretton Woods in 1971 had opened significant space for developing countries to organize a more progressive international order (Bair 2007; Rothstein 1979). Known as the New International Economic Order (NEIO), these countries organized a set of proposals for the redistribution of resources from North to South, especially through the United Nations (Bair 2015). These advances made within the UN significantly impacted the agenda for IMF reform, posing a significant political obstacle for the United States' goals in the reform process.

The presence of an organized progressive movement in the developing world, with significant European support, should be seen as a significant influence on U.S. policy. Once floating exchange rates set in and the oil price shock occurred, the developing world needed either large volumes of liquidity to support volatile patterns of short-term deficits, or great cooperative efforts to stabilize national economies through these cyclical shocks. Because U.S. action to suspend the fixed-rate structure of the IMF had actually necessitated significant change, the IMF itself became the primary venue in which the progressive movement sought reform.

Of particular relevance to this analysis is a proposal known as the "SDR-aid link". Special Drawing Rights (SDRs) were created through the IMF in 1967 as a way to supplement the world's monetary liquidity, so that the international monetary system would not be constrained by the supply of dollars. The "Link", as it became known, would have disproportionately issued SDRs to developing countries to supplement their often weak foreign exchange reserves. This carried the potential for a dramatic impact on actual balance of payments in the developing world, akin to the postwar Marshall Plan, where significant aid would be issued to developing countries in the form of IMF-sponsored assets that could be used to import manufactured products from the advanced industrial countries. Another relevant component of the NEIO involved the sovereignty of developing countries relative to foreign capital (Slobodian 2018; Bair 2015; Spiro 1999). This question would not be directly debated through the IMF, but captures the overall dynamic of the negotiations within it after 1971. The narrative below will show that the U.S. strategy of IMF reform was to use conditionality to enforce the sovereign rights of multinational private banks over the resources of developing states.

In the post-1971 global economy, perhaps the most impactful development was the incredible boom in private financial activity across borders. Of the over 2,000% increase in private financial commitments to developing countries between 1971 and 1997, about 60% of this growth happened in the 1970s alone. In sheer volume, international bank lending very quickly displaced the IMF as the main source of deficit finance (Gould 2006; James 1996). A brief note is warranted on the institutional structure of this private bank lending. Before 1971, the United States faced growing deficits itself under the Bretton Woods system, putting pressure on the viability of the dollar as the international reserve currency (Zoeller 2019; Block 1977). Unable to devalue its currency under the system of fixed exchange, the U.S. instituted controls on the outflow of capital from the country to moderate its deficits (Hawley 2016). The relaxation of these controls after 1971 gave obvious results- a major boom in international financial activity. However, an innovation of the capital controls era helped determine *how* this boom occurred. Major U.S. banks during the 1960s opened branches in European markets, particularly in London, as these subsidiaries were not subject to asset reserve requirements under U.S. law, and foreign-based subsidiaries of U.S. commercial banks were free from the restrictions of domestic capital controls. This made the City of London, Europe's financial capital, a major hub of global finance that channeled American capital into overseas markets (& Gutman 1981). By the end of the 1970s, the nine largest U.S. banks "had committed 113 percent of their capital in loans to just six countries…In fact, loans to Brazil and Mexico alone were equal to half of all U.S. bank capital" (Lipson 1981). Today's condition of global systemic risk was in fact a novel economic, political, and social condition that arose during this time (Centeno et al. 2015). So, while the negotiations of reform to the IMF Articles of Agreement were necessitated by the

breakdown of fixed exchange rates, this process should also be considered as a formative negotiation of modern global financial governance.

The American representatives to the IMF in these negotiations were largely U.S. Treasury officials, although its overall international economic policy was significantly influenced by the Federal Reserve and the Council of Economic Advisors. Secretary of Treasury Bill Simon represented the U.S. during critical negotiations in the mid-1970s, and was a primary force in opposition to the SDR-aid link. Alan Greenspan served as the Chair of the Council of Economic Advisors during this time. Greenspan's later role in facilitating the rise and fall of multiple financial bubbles should not be forgotten here. As U.S. policy during Greenspan's service to the Gerald Ford administration involved knowingly risky expansions of the foreign lending bubble, it should be mentioned that Greenspan's first major role in government marked the first great financial bubble of the modern global economy.

United States Interests and IMF Reform after 1971

U.S. Assessment of the IMF: Skepticism or Utility?

Just weeks after Nixon's announcement to suspended gold convertibility in 1971, Federal Reserve staff prepared an options paper for the future of the international monetary system. It observed "the primary international institutions that embody the postwar ideals of multilateralism and liberal trade – the International Monetary Fund and GATT – are heavily strained. They must adapt or wither away."[99] The Fed and Treasury's International Affairs staff could not have anticipated the effect of the 1973 oil crisis and the incredible boom in international private bank lending on the international monetary system, but it was apparent to all

[99] "International Monetary Issues - The Setting and the Options", 30 August 1971, Box B62 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.

that the IMF would need major reform. The IMF's "raison d'être" had ceased to exist (Kentikelenis & Babb 2019: 1732; Zoeller 2019), as the founding purpose of the IMF was to guarantee the system of fixed exchange rates. How would the United States approach reform?

The Nixon Administration, and in particular the Treasury Department, took a broad look at the role of international organizations, putting together a broad report to the President on the utility of the International Financial Institutions (IFIs). It asked "how can we maximize the consistency between US objectives and the substantive policies of [IFIs]?"[100] The report noted that "the strategic significance of the IFIs to the US lies in their role as a major instrument for achieving US political, security and economic objectives with particular respect to developing nations." It characterized the Bretton Woods period as the era of "altruism", followed by a "sharp shift in attitudes of Treasury leadership away from benevolent view of IFI participation; emphasis on reassessment". The Nixon Administration was in a "period of deep ambivalence about IFIs…obliged in the current era of self-interest to follow through on promises belonging to the earlier era of altruism…groping for a new rationale, beyond development per se, to justify participation."[101] The "era of self-interest" brought an assertion that there was no need for the United States to "be concerned with supplementing incomes of the low-income groups in the poorest LDCs, and in promoting general social welfare objectives."[102] Instead, There was "a considerable priority attached to protecting existing US foreign investment…but a lower priority on assuring outlets for new investment. Considerable priority is *attached to maintaining the ability of the LDCs to service US debts and in preventing an erosion in the responsibility to meet*

[100] Hennessy, John. Memorandum to Under Secretary Volcker. 18 January 1973 (Series IIIA, Box 29) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[101] United States. Department of Treasury. *Multilateral Development Assistance*. Internal Memorandum, 19 May 1973 (Series IV, Box 64) Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[102] *ibid.*

contractual obligations"[103] (emphasis added). This interest in ensuring debt service – not just per se, but on U.S. debts in particular - would assume a much greater significance as the exposure of U.S. banks to developing country lending would skyrocket through the 1970s. Negotiations over reform to the IMF would be the venue in which the U.S. Government pursued this interest.

The IMF Reform Process: Competing Plans for Deficit Finance

In 1972, The United States led the planning of an interim Executive Board in the IMF, and the Committee on Reform of the International Monetary System, known as the "Committee of Twenty" (C-20), which was a representative body in the Fund tasked with negotiating changes to the IMF's charter. Representation within the C-20 was broad, as the 20 delegations were actually groups of national representatives, giving significant influence to developing countries. The U.S. approached reform with a clear interest in ensuring that the IMF would be used as a lever to force the "burden of adjustment" onto countries suffering a declining balance of payments, through conditionality rather than "concessional" loans, capital transfers, and expansions of aid. The latter, more progressive proposals had been regularly discussed in the United Nations, as part of the NEIO project initiated by developing countries. On the other side of this debate over deficit finance was the United States, which insisted on "definite expectations by the international community that positive adjustment actions would be taken. If ultimately necessary, international pressures would be brought to bear to ensure that adequate adjustment actions were taken…they would bear the burden of proof to the international community that adequate adjustment actions had been or would be taken."[104] This was conditionality, articulated

[103] *ibid.*

[104] "The U.S. Plan for International Monetary Reform", 23 March 1973, Box B66
Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.

through a framework of economic distribution. The burden of adjustment simply meant that if global markets - commodity, money, or capital - led to international deficits in a country, the IMF should apply pressures on the deficit countries to pay for these deficits with domestic economic resources, rather than international development assistance.

While conditionality had long been part of IMF lending activities, the use of these "international pressures" going forward was uncertain, as the developing countries were well organized in their advancement of alternatives for the international monetary system. After a meeting in Nairobi in 1973, the C-20 produced an "Outline of Reform" that left the status of conditionality unclear. Paul Volcker, then the Treasury Undersecretary for International Monetary Affairs, noted that the Outline of Reform "was not a very good one from the U.S. point of view."[105] It was "drafted in a way which leaves us little negotiating room and which submerges points that are in dispute and critical to us – notably the use of pressures…The upshot is a draft that is on the thin edge of acceptability to the U.S."[106] Beyond simply threatening the U.S. position on "pressures", meaning policy conditions that force "adjustment" though austerity, the work of the C-20 also raised prospects of much more radical development reform. The two main issues raised by developing countries were the "SDR-aid link" and broader "transfer of real resources". The former would formally earmark the IMF's creation of "Special Drawing Rights", intended as supplementary sources of international liquidity in the form of aid to developing countries. This was a major point of insistence for the developing countries, which

[105] Paul Volcker, Memorandum to Secretary Schultz, 17 September 1973, Box B66 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[106] *ibid.*

"could block the adoption of any amendments to the IMF Articles based on the work of the C-20"[107] if this form of development aid wasn't offered.

Throughout the reform process, overlapping with the period of growing and persistent third world deficits, numerous proposals for "concessional" aid were brought forth within the United Nations, but also within the IMF, by developing countries and also industrialized powers. The United States consistently opposed these proposals in favor of increased IMF conditional lending, and was concerned with the discipline of European governments on this issue. A National Security Council memorandum suggested more directly engaging European Community governments in the project of deficit finance reform before meeting in international venues, in order to "avoid a beauty contest among the ECG countries in the United Nations each offering some new plan to help the LDCs."[108] Indeed, the U.S. concern in development policy was explicitly not driven by development goals per se*,* and it was staunchly opposed to any cooperative deficit finance proposal other than expansions of conditional lending. Throughout the reform process, the Treasury was adamant that the IMF not be transformed into an "aid institution".[109] Despite facing "quite a challenge if we are in the end to carry the day", on maintaining IMF conditionality, the work of the C-20 would take a dramatic turn as the effects of the 1973 oil price shock began to take effect through 1974.

As the energy crisis worsened, the question of deficit finance became the overwhelming concern of the C-20, tabling the considerations of increased development aid that had been gaining ground. In May, 1974, the C-20 itself reported that "since the Nairobi meeting, the

[107] "Staff Comment on the 'Special Interests' of the Developing Countries", 6 June 1974, Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[108] "U.S. Policy Towards Financing Proposals to Assist LDCs to Meet Oil and Other Import Requirements", 29 March 1974 ,Box 111 U.S. National Security Council International Files, 1974-1977, Gerald R. Ford Library
[109] "Review of Issues Concerning the IMF", 2 February 1976, Box B63 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.

uncertainties affecting the world economic outlook…have increased…these conditions of greater uncertainty have led to a change of emphasis in the work of the committee". This urgency for deficit finance brought the U.S. priority on conditional lending squarely back into the reform conversation. The report continued that "during the current period of exceptional and widespread payments imbalances, there is a particular need to maintain close international consultation and surveillance of countries' balance of payments policies...supplying on appropriate terms the increased needs of many developing countries for financial resources." This would lead to "an enlargement of the scope of international surveillance and management in a number of important areas, and a consequently larger role for the Fund."[110]

As the need for deficit finance increased, so too did America's leverage over its negotiating opponents over the terms of the IMF's credit. The first major victory for the United States in expanding conditionality was the Extended Fund Facility, which was supported by the U.S. as a "negotiating substitute for the SDR-aid link." Treasury staff noted that "some of the LDCs have been unenthusiastic about such a facility, fearing it would undermine their efforts to obtain the [SDR-aid] link, and perhaps suspicious of providing the IMF too great a voice in their economic policies."[111] The introduction of this new credit facility necessitated the question of how much policy conditionality would be appropriate for this "enlargement" of the IMF's role in deficit finance. Thus, it provided the opportunity for the U.S. to successfully negotiate austerity into the distribution of financial risk now being created. In a private meeting with West German Chancellor Helmut Schmidt, Treasury Secretary Simon asserted that the new IMF facility was "not to be used to support excessive spending", but rather that "borrowers must follow

[110] International Monetary Fund. "Draft of Report to the Board of Governors of the International Monetary Fund by the Committee on Reform of the International Monetary System and Related Issues", 15 May 1974, Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[111] "Suggested Talking Points and Background on Extended Fund Facility", 29 May 1974, Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.

responsible policies."[112] Obviously the terms 'excessive' and 'responsible' here are subjective; the following section will make clear that the debate was essentially a question of sovereignty and economic distribution- the rights of international banks against the resources of developmental states.

U.S. Strategy for Deficit Finance: Expanding the Role of Private Banks

While the U.S. would work through the C-20 to increase the IMF's lending capability, it was far from sufficient to meet the increasingly dire need for credit to finance the deficits of the oil-importing developing world. In 1974, the Treasury Department had formed what was known as the "Fowler Committee", formally called an "advisory committee on reform to the international monetary system". Chaired by Henry Fowler, former Secretary of Treasury and Partner at Goldman Sachs, the committee was composed of a high powered group of industrial and financial executives, including two other former Secretaries of the Treasury, David Rockefeller, and others. Represented were Bank of America, Dillon Read, First National Bank of Chicago, Manufacturers Hanover Trust, General Electric, Morgan Guarantee, Fidelity Bank, Chase Manhattan Bank, and several others. Paul Volcker described the group as one "with which we have been able to be quite frank and open and to discuss negotiating tactics as well as substance. Members have been very helpful in expressing their opinions and generally have given strong support to the policies we have been following."[113]

Given the composition of the committee, it should be seen as no surprise that the Fowler group took a firm opposition to "concessional" lending facilities being proposed within C-20

[112] "Talking Points: Meeting with Chancellor Schmidt, 4 December 1974 (Series IIIB, Box 47) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[113] Volcker, Paul. Memorandum to Secretary Simon, 29 May 1974 (Series IIIB, Box 47) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.

negotiations. Rather than transfers of resources to developing countries that took the form of aid, or carried lower interest and more accommodating terms of repayment, the U.S. view echoed the view of the Fowler Committee that private banks could wholly, and profitably, undertake global deficit finance themselves. Regarding opposing concessional aid, the Committee "recognized the public relations problem in opposing the scheme and the need to suggest alternatives. It was felt that the IMF should not attempt to act as a 'welfare' agency."[114] But rather than diminishing its role, the group of private bankers felt that "considerable power could be given to the IMF provided the U.S. exercised a vigorous, continuous influence over the policies of the organization."[115]

In September of 1974, the U.S. delegation to the C-20, led by Secretary Simon, prepared for the IMF annual meeting with a series of assertions and negotiating points. The first was to "enforce fiscal and monetary restraint"[116]. Simon argued that existing mechanisms of deficit finance (largely driven by the private capital markets) were working, but that banks needed a "signal" to increase lending[117]. What sort of signal was this?

In order to understand the relationship Simon envisioned between private banks and the IMF, let us first understand the interest of the U.S. government in the activities of private banks during this period, going back to the beginning of the international lending boom two years earlier. The practice of capital controls in the United States had led the U.S. financial industry significantly to the London-based "Euromarket", away from domestic operations, and U.S. executives saw no reason to discourage this. In 1973, President Nixon's Council on International

[114] United States. Department of Treasury, "Minutes of Meeting: Fowler Committee" 15 March 1974 (Series IIIB, Box 47) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[115] *ibid.*
[116] United States. Department of Treasury, "Suggesting Talking Points for Secretary Simon's Use in U.S. Delegation Meeting" 30 September 1974 (Series IIB, Box 47) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[117] ibid

Economic Policy, chaired by Wall Street billionaire Peter G. Peterson, produced a report concerning "the relative decline of the United States as a center for international finance."[118] It commented that it was

> *"[not] obvious that a concentration of international financial activity in the United States would be desirable…a concentration of international financial activity could subject the U.S. to additional political criticism from abroad by those who do not believe in the philosophy of the market place, or don't believe that is how financial markets actually work. For many, the more financial activities are concentrated in one place…the more pervasive the belief that there is an economic monopoly and excessive political power."*[119]

Thus, the United States Government was not interested in any "re-shoring" of financial activity, preferring to expand the nation's financial power through international lending.

This interest took on a much greater significance after the oil price shock. As the developing countries' deficits boomed, so too did the amount of private capital flowing into them. The above-mentioned Euromarkets were funneling tens of billions of dollars from U.S. banks to governments in the developing world, at rates of return much higher than could be achieved in domestic lending operations. Treasury and the Federal Reserve were well aware that the total volume of private lending was heavily comprised of American capital, and among that group, just a few American banks were responsible.[120]

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[118] United States. Council on International Economic Policy, "Report of the CIEP Work Group on International Financial Competition", 1973. (Series IIIA Box 29) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[119] *ibid.*
[120] "Review of Issues Concerning the IMF", 2 February 1976, Box B63 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.

The problem was that, despite this tremendous surge of concentrated private lending, the deficits of the borrowing countries were not going away.

Already in 1974, just a year after the oil price shock, the Executive Branch realized that it was "clear that the private financial markets are facing strains and potential difficulties."[121] Despite their careful work in the IMF and other international negotiations not to impinge on the ability of a few private banks to accumulate billions of dollars in high-interest assets, U.S. officials had no illusions about the sustainability of this plan. A Treasury report in 1974 emphasized the role of private financial markets, which were already extending vast amounts of credit, with concern that while "such flows of [private] funds might be accommodated for a while – perhaps a few years – it seems likely that frictions would tend to multiply between lenders and borrowers, and the difficulties for both sides mentioned would become unsupportable."[122] With cooperation of major U.S. banks, which opened their balance sheets to government agencies, the U.S. Treasury and Federal Reserve regularly projected the impact of loan defaults. It was repeatedly noted that default was not an option, with one analysis projecting up to a 57% decrease in bank earnings, which could create an "international financial crisis."[123]

In 1974, the Treasury met directly with private bank executives to discuss the ability of private markets to keep money flowing to developing countries[124], and were reassured regularly by the Fowler Committee that the private markets could "handle the

[121] "Problems Faced by Banks", 15 October 1974, Box 113 L. William Seidman Files, Gerald R. Ford Library.
[122] "Financial Flow Aspects of the Energy Problem", 11 January 1974, Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[123] "An analysis of threats to the international monetary system", 13 November 1976. Box B65 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[124] Fiedler, Edgar R. Memorandum to Executive Committee of the Economic Policy Board, 18 March 1975, Box 57 L. William Seidman Files, Gerald R. Ford Library.

job."[125] It is important to emphasize that virtually from the beginning of the modern era of booming international finance, the U.S. government was aware that the activities of internationally active banks raised the possibility of a global financial crisis. Immediately, Treasury moved to establish "reassuring attitudes regarding official action as a lender of last resort." The Council on International Economic Policy noted "the basic dilemma is to give reassurance to the system without underwriting the solvency of individual banks."[126] That is, they wished to avoid a catastrophic financial collapse without paying for this insurance themselves. The risk of crisis came from "concerns about the future ability of some of the LDCs to service and roll-over existing debt *and to attract new financing*"[127] (emphasis added), emphasizing that despite the risk posed by overextended banks, deficit finance was to be kept as a private for-profit institution. Rather than collaborating with progressive proposals in international venues on global deficit finance, the U.S. goal was to both ensure the continued boom of private finance internationally, and to publicly assure that bailouts were in order for banks facing any potential crisis[128].

Why was it so important to keep private loans as the main instrument of international deficit finance? The most important issue was that "foreign loans in general, and loans to LDCs in particular, have been an import source of income to the banks," according to a Fed report. In fact, "the record of U.S. bank lending to foreign borrowers

[125] United States. Department of Treasury, "Minutes of Meeting: Fowler Committee" 15 March 1974 (Series IIIB, Box 47) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[126] *ibid.*
[127] United States. Board of Governors of the Federal Reserve System. *U.S. Bank Lending to LDCs*, 8 November 1976. Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[128] *ibid.*

[had] actually been generally better than the record on lending to domestic borrowers."[129] Despite the acknowledged problems of debt service obligations for developing countries, the Fed hoped that banks would increase their interest rates as "compensation to the banks for the riskiness of their LDC loans."[130] How, then, would the U.S. government address the regulation of banks given that they wished to avoid underwriting major financial losses in the event of default? In a study of its regulatory responsibilities and its role as "lender of last resort", the Fed noted that

> *"a strict regulatory attitude towards classification of loans to LDCs would reduce bank willingness to extend or renew credits…since a cessation of bank lending could result in the very pattern of defaults everyone wishes to avoid, it is important that bank supervisory authorities not take any actions that might precipitate any cutoff."*[131]

So here we have the Federal Reserve Bank explicitly acknowledging that the American strategy of global deficit finance was inherently unsustainable. The U.S. government policy – formulated in consultation with private bank executives – was to finance the world's deficits at market-set interest rates through private banks. When this led to fear that the borrowing countries would be unable to service their debts, their explicit strategy was to abdicate on regulation of U.S. banks so that they would be enticed to issue more and more new loans – knowingly for the purpose of servicing existing debts to the same banks. This rather Ponzian model of deficit finance would need an eventual resolution, as the U.S. Treasury recognized.

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[129] *ibid.*
[130] *ibid.*
[131] *ibid.*

Under the Bretton Woods system of fixed exchange rates, up until 1971, the IMF had been a much more central institution in financing short term deficits. Further, the U.S. was so far succeeding in blocking plans to subsidize export revenues, issue aid, and extend other "concessional" forms of development finance, keeping private capital markets as the exclusive mechanism. This paradigm shift in U.S. foreign economic policy toward expansion of private international finance would seem to diminish the IMF's role. So why were U.S. officials, and the bankers themselves, so concerned with expanding the role of the IMF and its conditional lending practices? As Secretary of Treasury Michael Blumenthal would later state in a memorandum to President Carter in 1977, "the real value of an IMF program is the policy changes it brings, not the money."[132] This brings us to the "signal" that IMF-mandated austerity was supposed to give banks, according to Bill Simon, Blumenthal's predecessor.

"Stabilizing" Conditions: Bank Solvency versus Developmental States

As negotiations within the C-20 proceeded on various topics through 1975, developing countries, and often European governments, brought progressive proposals of aid to the agenda, which the U.S. consistently opposed. A major success for the U.S. within the C-20 had already come in 1974 through the defeat of the SDR-aid link. Secretary Simon reported to President Ford that "the major difficulty in the final session was an LDC threat to veto the total package unless it included agreement on the 'link'…We and the Germans stood firm against this proposal"[133] Later, the West German

[132] Secretary of the Treasury, Memorandum to the President: The International Monetary Fund and 'Conditionality', 22 September 1977. Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[133] Simon, William E. Memorandum for the President, 13 June 1974. Series IIIB, Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.

government proposed expanding its "export stabilization" program, based on work within the European Community, which subsidized losses in export earnings due to price shocks in key commodities for developing countries. The proposal to expand this program under the auspices of the IMF had "general support…from the other members of the European Community".[134] The U.S. pushed back on this, noting that "it is likely to be expensive", and that "lending under the program would involve no conditions with respect to balance-of-payments or recipient countries' policies."[135]

Despite assurances to the international community that it was committed to "compassionate" solutions[136], U.S. Treasury policy was perfectly consistent with the "era of self-interest" as laid out by the Nixon Administration. As the Fowler Committee had suggested, its policy achieved an IMF that "should not attempt to act as a 'welfare' agency"[137]. Rather, conditionality was viewed as necessary to enforce "discipline" on deficit countries. Internal documents show that the U.S. conceived of IMF austerity as a policy corollary of its strategy of global deficit finance- to be driven by private banks without competition from more progressive development efforts. Even in public it was presented as a plainly distributional question over the "burden of adjustment"[138], to be paid through austerity rather than by a restriction of private international finance or an increase in public mechanisms. If IMF credit was issued to an indebted country, the U.S.

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[134] Truman, Ted. Memorandum to Chairman Burns: The German STABEX proposal, 21 April 1977. Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[135] *Ibid.*
[136] United States. Department of the Treasury. *OECD Speech* 1976 (Series IIIB, Box 24) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[137] United States. Department of Treasury, "Minutes of Meeting: Fowler Committee" 15 March 1974 (Series IIIB, Box 47) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[138] United States. Department of the Treasury. *Use of IMF Resources Talking Points* 1976 (Series IIIB, Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.

was very clear that such money was to be paid to the private banks, rather than to meet wage demands inside the country, for example. At the January, 1976 meeting of the IMF in Kingston, Jamaica, which saw the ratification of the new Articles of Agreement, Secretary Simon stated that

> "*it is sometimes argued that IMF conditions are not appropriate to present circumstances of the developing countries because their deficits are due to the oil price increases or to recession in the industrial countries. We do not agree. Countries must face the fact of high oil prices and begin the process of adjustment, and IMF conditions will be desirable and appropriate to promote that adjustment…Conditionality is a critical element in the market's judgment of countries' policies and ability to repay, and many lenders will provide credit only if the IMF is participating. Maintenance of appropriate policy conditions on use of the IMF enhances countries' ability to obtain credit from the private markets."*[139]

Even the IMF's special "oil facility", which offered lending specifically for cases of oil price-induced deficits, was ultimately loaded with conditions at the urging of U.S. Executive Director Sam Cross[140], after the Fowler Committee noted that the original 1974 oil facility was too concessional[141].

What Secretary Blumenthal meant by the essential value of the IMF as an agent of policy change may be best understood in light of the previous discussion of the overall

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[139] *ibid.*
[140] United States. Department of the Treasury, *Proposal for a New Financing Agreement* 12 February 1974 (Series IIIB, Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[141] United States. Department of Treasury, "Minutes of Meeting: Fowler Committee" 15 March 1974 (Series IIIB, Box 47) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.

U.S. strategy of private-led deficit finance. Knowing full well that private banks could not indefinitely lend billions of dollars to indebted countries simply to pay back existing high-interest loans from the same banks, "stabilization" policies meant that previously committed resources - public employment, wage guarantees, food subsidies, and so on – must be liquidated and transferred out of the country in order to keep private deficit finance profitable. Simon presented this as very much for the borrowers' own good:

> *"From the standpoint of the LDCs substantial dilution of the conditionality of IMF credit power is a real danger. Private providers of credit to LDCs rely heavily on IMF conditionality to change the policies of countries that have wandered from the reservation in terms of the conduct of their affairs. It is the IMFs ability to influence the policies of such countries when they (inevitably) wind up at the Fund's door that provides some assurance to private lenders that remedial action will be forthcoming. A sharp drop in conditionality, an increase in the Fund's role as an aid agency, rather than a hard nosed lender would inevitably have an adverse impact on the private sector willingness to provide credit. In effect it would mean that one of the checks and balances in the system had been removed – the result would be less credit from the private sector."*[142]

And as the Federal Reserve had noted earlier, less private credit could potentially mean less ability of the indebted countries to repay their private creditors. This juggling act aligned not only with the Federal Reserve's abdication of its regulatory responsibilities, but also Treasury's own information from bank officials and analysis thereof. Treasury had predicted an increase of 9 to 10 billion dollars of private international lending for

[142] United States. Department of the Treasury. *Use of IMF Resources Talking Points* 1976 (Series IIIB, Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.

1975, over and above the 40 to 45 billion lent in 1974. Among the several major banks consulted, there was "concern about the weakened positions of a number of countries."[143] The banks were showing "an attempt to maintain prudence and avoid a return to the high volume-low profit market of the past", through a "significance increase in interest spreads and…shortening of loan maturities."[144] Given that private deficit finance would exacerbate the tenuous positions of the borrowers, the U.S. viewed expansions of IMF conditional lending as a necessary tool.

Treasury's conclusion that IMF conditionality was necessary to keep private credit flowing was repeated too many times to list comprehensively in the data reviewed for this analysis. In discussions of Latin American deficits, the proposed solution was more IMF conditionality and more private credit.[145] The same strategy was asserted to the IMF itself at the end of 1975.[146] In 1976, when the IMF's membership met in Jamaica to establish new Articles of Agreement, a large increase in the IMF's lending capacity was formalized, matched by the maintenance of strict policy conditions in all its major lending facilities and expansion of the IMF's ability to monitor borrowing counties' policies in detail. In presenting the Jamaica agreement to the U.S. Congress, which ratified it overwhelmingly, Simon again stressed the need for austerity conditions to ensure that money could be leveraged from developing countries to support the continuing private-led deficit finance regime. For him, the expansion of conditionality

[143] United States. Department of the Treasury, *Outlook for International Lending by Banks*, 1975 (Series IIIB Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[144] *ibid.*
[145] Cooper, Charles. Memorandum to Secretary Simon 28 June 1975 (Series IIIB Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.
[146] United States. Department of the Treasury. *Use of IMF Resources Talking Points* 1976 (Series IIIB, Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.

agreed to at Jamaica represented a fundamental paradigm shift in how the global economy was regulated in a world of floating exchange rates:

> *"Bretton Woods sought to impose stability on countries from without, through the operation of international monetary mechanisms; the new system seeks to develop stability from within, through attention to responsible management of underlying economic and financial policies in individual countries."*[147]

Simon's report to congressional Republicans on the legislation again emphasized conditionality as the major success of Jamaica.[148] This success was also approved by the Fowler Committee, as was the increase in the IMF's "surveillance" capacity. Surveillance refers to data-gathering for the purposes of enforcement in conditional lending, requiring an increased bureaucratic capacity of the IMF, and critically enabling the more focused interventions in economic and social policy that would follow during the period of structural adjustment. The Jamaica Accords in 1976 were the result of contentious politics over *cost distribution*. Monetary and financial liberalizations, along with over a tenfold increase in the price oil, created a new condition in the global economy of large and persistent deficits. Known as petrodollar recycling, the strategy successfully implemented by the U.S. government during this process was to use the problem as an opportunity to expand the global reach of large American banks (Spiro 1999). The successful defense of conditionality, attached to the IMF's expanded lending and

[147] Statement of the Honorable William E. Simon, Secretary of the Treasury, Before the Subcommitte on International Trade, Investment and Monetary Policy, House of Representatives, 1 June 1976. Box B64 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.
[148] United States. Department of the Treasury, *Suggested Talking Points for Use with Republican Study Group* 30 June, 1976. (Series IIIB, Box 48) William E. Simon Papers, Special Collections and College Archives, David Bishop Skillman Library, Lafayette College.

surveillance capacity, was celebrated as a victory by U.S. policymakers because it shifted the cost of global financial risk onto weaker states through austerity. This institutionalized an aspect of financial governance that persists today in various contexts. It is also important to note that American policymakers viewed the IMF as a political shield, as well as a lever for desired policy change abroad. Secretary Blumenthal remarked to President Carter in 1977 about Latin American officials who had come to his Office asking for the U.S. to intervene on their behalf with the IMF, noting the difficulty of compliance with IMF policy conditions. Blumenthal quipped to the President that

> *"the IMF has for years served as a kind of whipping boy. Countries…need a source to blame. The IMF is an ideal candidate that is accustomed to being in that position. If we didn't have the IMF, we would have to invent another institution to perform this function."*[149]

In a sense, our prevailing view on the IMF's neoliberal trajectory - that expanding IMF authority over the policies of borrowing countries was originally an IMF initiative rather than an American one – underscores the political utility of the IMF from the American view Blumenthal gives here. However, this scholarly thesis requires reconsideration in light of these overall findings.

[149] Secretary of the Treasury, Memorandum to the President: The International Monetary Fund and 'Conditionality', 22 September 1977. Box B67 Arthur Burns Papers, 1969-1978, Gerald R. Ford Library.

Reconsidering the Neoliberal IMF and Global Finance

The above analysis of U.S. policy and strategy toward the IMF during the 1970s has shown that the United States Government, volunteering for the U.S. financial industry, actively supported an expansion of the IMF's conditional lending programs and surveillance capacity, toward an overall increase in the Fund's authority over the economic policies of indebted countries. While this finding suggests that structural adjustment should be viewed as an evolution of older conditionality programs, ultimately continuous with the IMF's long history of mandated austerity, the above analysis emphasizes that there were viable alternatives being proposed from the organized developing countries (Bair 2015). The narrative shows that the United States achieved expanded conditionality through a contentious process, actively blocking competing proposals for deficit finance and shaping the IMF in ways that would enable further expansions of conditionality programs.

Most significantly for our understanding of conditional lending and institutionalized neoliberalism more broadly, the analysis has found that the U.S. interest in expanded conditional lending was motivated by an interest in ensuring repayment, and securing new loans, for large private banks. This confirms recent findings by Kentikelenis & Babb (2019), who find that U.S. interest in structural adjustment programs during the 1980s was intended to provide developing countries "new private financing to repay old debts" (Kentikelenis & Babb 2019: 1739). However, confirmation of their findings throughout the 1970s leads us to consider the continuity of U.S. interest in IMF conditionality as a mode of global financial governance, throughout the period before and after structural adjustment. Very concretely, the claim that IMF initiative preceded U.S. action toward expanded conditionality does not hold. The interests of the U.S. in

structural adjustment were the same interests it explicitly pursued in its successful campaign to ensure expanded conditionality before structural adjustment was broached.

Given this continuity of U.S. interests toward the IMF, it may be asked what paradigm shift can be identified in the overall history of the Fund, or whether this should be viewed as a continuous evolution from the original macroeconomic conditions the U.S. negotiated into the IMF's structure during the 1940s and '50s (Babb 2007). An answer to this may be found in Secretary Simon's address to Congress after the Jamaica Accords, describing a shift from 'stability from without' to 'stability from within'. While conditionality had nearly always been a feature of IMF lending, it took on new qualities after 1971. First, Simon's description refers to an expanded obligation of weaker economies to stabilize their exchange rate through austerity, rather than relying on the IMF to stabilize it through its regulatory structure. Second, the U.S. interest in securing the continued flow of private finance must be understood in light of the massive boom in private financial activity that took place during the 1970s. Whereas before 1971 conditionality was mandated to ensure the integrity of the IMF's fixed exchange rate structure, now it was being mandated to ensure the solvency and continued profitability of major private banks, from the beginning of the lending boom through the implementation of structural adjustment.

Aside from the historical continuity of this relationship before the 1980s, contemporary scholarship has not fully theorized *why* private banks favored expanded conditionality after 1971. The present analysis has shown that, while the banks may have favored neoliberal policies ideologically, they saw a material benefit in conditionality because it ensured money would be *liquidated* from indebted states in order to restore their external private creditworthiness. Privatization of national industries, to give a hallmark example of structural adjustment

conditions, serves to free money for external transfers just the same as general macroeconomic austerity. As financial pressures on developing economies intensified through the following decades, it is logical that the mandated austerity would intensify to match. This was the expressed interest of banks that were concerned over "repayment prospects" in indebted countries nearly as soon as the lending boom began in 1974. In view of the overall financialization of the global economy that began during the 1970s (Davis & Kim 2015; Dumenil & Levy 2011; Krippner 2011), the findings of this analysis suggest that austerity policy, and IMF conditionality in particular, should be viewed as a deeply institutionalized distributive mechanism where private financial profits are protected, and financial risk minimized, by forcing resources out of politically weaker states, institutions, or groups.

Future research should further articulate how and why proponents of neoliberal policy were empowered by changes in the global economy during this time. An immediate question raised by this research regards the domestic political processes by which financial firms influence U.S. international economic policy. This analysis has shown that the exercise of U.S. power was sufficient to institutionalize austerity as the mode of global financial regulation for an era of recurring financial crises. It has also shown that the U.S. exercised this power in order to safeguard the interests of private banks over the resources of sovereign states, confirming recent findings on structural adjustment programs.

Finally, this chapter has demonstrated that some insights of political sociology in national contexts may be usefully applied to the international realm. Just as national and local political institutions have been key sites of contention in the development of neoliberal policy, where powerful groups secure or contend over economic resources, international organizations should be viewed the same way. The insights of the new

institutionalism in global sociology have done well to take the autonomy of international organizations seriously, helping us understand their normative power. Current research has made more progress by integrating this insight with an understanding of internal political conflict, state power, and the role of private capital in global economic governance. The present analysis poses that the trend toward causal complexity in global sociology will be advanced by considering how the intentional exercise of state power through formative conflict may create complex and path-dependent processes of change in international institutions (e.g. Chorev 2007).

CHAPTER FIVE

Conclusion

In some ways, these findings should renew attention focus on the relationship between state and class actors in the institutional dynamics of global capitalism. It is clear that the augmented austerity programs built into the IMF's lending during the 1970s were intended to liquidate social resources in developing countries in order to satisfy their foreign private creditors. Further, it is also clear that the American state actively engineered this institutional change in order to forestall a push for a more equitable global distribution of resources. Just as Dumenil & Levy (2011) have strongly argued, the result of this was indeed to catapault finance capital into a dominant political-economic role.

While these findings confirm the importance of private financial interests in this story, they do not conform to traditional instrumentalist views of class and state. By the time this program of austerity-as-liquidation was extended into the formal structural adjustment program framework, private finance was well organized to lobby states and the IMF itself for these policies. However, we have seen here that the origin of structural adjustment, as it fundamentally relates to the banks, was something the American state had to lobby the banks for!

Private banks were not directly consulted throughout the Treasury's stumbling trajectory into the floating exchange rate system. Throughout Chapters Two and Three, the primary actors within the Volcker Working Group were largely skeptical of any outside voices, viewing the matter as an entirely political one within the Bretton Woods

system. However, once they opted for flexible rates, they did so "with our eyes wide open as to the risks of monetary disturbance both to the prestige of the United States and to the effective operation of the international economy". Thus, they were faced with a whole new set of policymaking problems of their own creation, and at the same time opening the door to contentious negotiations over the global distribution of resources.

The proactive creation of the Fowler Committee is the first indication that the Nixon Administration saw private international finance as useful toward solving these problems. This enrollment of private interests toward state policymaking goals was largely unsolicited, and required the state to ensure numerous conditions in order to convince private industry of its plan. Nearly as soon as private banks assumed the primary function of global liquidity provision, they became vocal in expressing their concerns about extending these activities any further. Early meetings of the Fowler Committee, along with numerous reports within the Federal Reserve and the Treasury Department during this time, show private banks largely reluctant to extend more credit to the developing world.

And so nearly as soon as the state had enrolled private finance in its own project, it was now beholden to their interests. This was not out of any active lobbying or "state capture", but rather simply because the U.S. state needed to ensure profitable conditions for the banks, in order to make this state-led plan viable. This presents as a more contingent and complex view of class and state that takes account of the privilege given to finance capital after this reconstitution of the global economy. Regardless of how autonomous state power may be from particular private influence, historical circumstances may arise in which the state *chooses* to employ certain private interests in

the context of a policy dilemma, and those interests must therefore be catered to in processes of institutional design. This is how we should understand the foundation of financial hegemony in the contemporary era, as well as the history of the neoliberal IMF.

Major Findings

The Breakdown of Bretton Woods as a Contingent Event

The overall thrust of this research offers several major contributions to our understanding of this important historical episode. First, this research has presented a much more contingent view of the breakdown of Bretton Woods than previous scholarship. That is, the notion that economic constraints forced the end of the Bretton Woods monetary system does not hold. Rather, it was a political decision determined within a narrow institutional context. Closing the gold window was never the goal or preferred strategy of the Nixon administration, which had spent years preparing much more modest reforms. Nevertheless, U.S. policymakers took this unilateral action as a contingency plan to achieve a short-term goal, knowing that it would dramatically change the functioning of the international economy. Surprisingly, the autonomous structure of the IMF did not channel U.S. initiatives toward gradual evolution, but rather helped determine a radical change in strategy. The decision to suspend the 25-year arrangement of the international monetary system was taken to pursue a short-term advantage, by a relatively anonymous and select group of appointed policymakers, ultimately enacted by President Nixon.

This account of the breakdown of Bretton Woods also emphasizes the lack of long-term vision characteristic of the process. Drawing from more modern institutionalist

approaches, the process leading to the end of Bretton Woods is nicely characterized by the concept of bounded rationality. While political economic accounts of this case accurately point out the long-term U.S. interest in maintaining the dollar as the international reserve (Panitch & Gindin 2012; Eichengeen 2010), they do not explain the means by which U.S. officials would pursue it. Just as the structural economic context is insufficient to explain the radical break of the international monetary system, so is this overarching political interest. The detailed primary data produced by this research shows this turn in economic history must account for the particular historical path of the Bretton Woods system and the reform process built into it. The breakdown of Bretton Woods was an active political decision. This finding should also draw attention to the construction of the neoliberal institutions that directly followed in its wake.

Crisis as Opportunity

Having demonstrated that the decision to close the gold window was a pro-active one, we ask how it is that history has been so eager to accept the general notion that it was more or less forced by extenuating circumstances. Chapter Three showed that the United States Government is explicitly aware of the "economy" as a social construct very much as described by modern theorists. That is, that economic forces are perceived as esoteric, objective, and exogenous to political action. The Nixon Administration repeatedly asserted that the perception of crisis could allow for political action that would be draw significant opposition otherwise. Further, it showed a preference for market-based reforms not for theoretical reasons, but because the perceived objectivity of

markets disguised the underlying political interest in the outcomes market institutions would produce.

Viewing the end of Bretton Woods this way shows us that objectively described economic crises can very easily mask particular and contingent political decisions that would otherwise be objectionable. This notion of crisis as opportunity has been excellently described by Naomi Klein (2007) as a key strategy of neoliberalism, and the present research has shown this characterization to be accurate even in the historical origin of the neoliberal project. Further, the perceived autonomy of the economy itself should be seen as an explicit political tool.

Tracing the Origin of Neoliberalism Through the IMF

Finally, the findings of Chapter Four offer a challenge to social scientific accounts of the transformation of the IMF into a decidedly neoliberal agent. Prominent institutionalist accounts of the neoliberal era have highlighted the role of International Organizations as key agents of neoliberalism, and normative changes within the IMF as foundational to the neoliberal paradigm globally (e.g. Barnett & Finnemore 2004). The present research has shown that the temporal boundaries of the neoliberal era are earlier than many accounts hold, as this shift predated the discursive changes and policy reforms in Western countries during the 1980s. It also suggests that changes in the material practice of global capitalism may have been as influential as normative and ideological change in this process. That is, the tremendous growth of international financial activity after 1971 presented a new stakeholder for U.S. policymakers, renewing their interest in IMF conditional lending. The entrenchment of neoliberalism as a dominant ideology, by

all accounts in the 1980s, should be viewed as a historical development on top of this previous institutional change driven by state action.

Theoretical Implications

Debating Normative Change and the Autonomy of International Organizations

The first implication of the findings summarized just above is that strictly normative explanations for the development of neoliberalism, and those that insist on the autonomy of the IMF from state power, cannot hold. Contemporary research on the institutional bases of global neoliberalism focuses primarily on the normative and ideological changes that have solidified this policy paradigm. Indeed, it is a striking feature of the contemporary economic policy paradigm that market fundamentalist ideas are so hegemonic (Block & Somers 2014). The origins of global neoliberalism are therefore traced, typically, to the 1980s when the governments of Reagan and Thatcher came to power with new "supply-side" economic discourse (Kentikelenis & Babb 2019; Hall 1993), followed by the 1990s when the "Washington Consensus" formalized a neoliberal hegemony over global economic policy (Babb 2013; Stiglitz 2002).

Within this perspective, economists and international organizations are viewed as key agents responsible for the development of the new normative policy framework. Fourcade (2006) shows how changes in the economics profession have increased its global influence on policy. How are these ideological actors responsible for such broad institutional changes leading to the contemporary hegemony of neoliberal policy ideas? Hall (1993) writes that economic ideas create paradigm shift through a "trickle up" process of diffusion among state policymakers. Numerous scholars correctly identify a

major normative transformation within the IMF during the 1980s (Kentikelenis & Babb 2019; Harvey 2007), leading to the well-known structural adjustment programs which debuted in 1985. An influx of neoliberal economists among the IMF staff is therefore held as a central cause of change in that organization toward structural adjustment, bringing dramatic reform of economic policy, social policy, and even state structure (Reinsberg et al. 2019; Chwieroth 2015; Babb 2005) in developing countries. This normative transformation within the IMF is held as a primary case for the autonomy of the IMF from state interests (Barnett & Finnemore 2004).

Even the recent work of Kentikelenis & Babb (2019), for all its archival rigor, argues that the United States was simply uninterested in the IMF per se. They explicitly argue that the U.S. was "unenthusiastic" about the utility of expanded conditionality or even an empowered IMF per se, until the IMF itself proposed an action that the U.S. Government found useful. In this way, their findings do not directly challenge the dominant perspective on international organizations and neoliberalism, maintaining that normative changes in the Fund drove it to autonomous action, before any meaningful state initiative. Evaluating data from the Treasury Department in 1985, they find an active U.S. interest in expanded conditional lending proposals made by the IMF staff, in contrast to previous American "mistrust of international organizations" (Kentikelenis & Babb 2019: 1734).

The findings of Chapter Four show that the IMF should not be viewed as the autonomous agent of neoliberalism that these predominant theories presume. Rather, the diffusion of neoliberal policy norms within many organizations, including the IMF but also academic and state institutions, should be viewed as *following* from the

financialization of the global economy in the early 1970s and a major exertion of U.S. power over the shape of the IMF. Chapter Four showed that the U.S. needed to ratify the IMF as a relevant organization in the new global economy, which it chose to do as a complement to the effective privatization of the international monetary system. The austerity policies we associate with neoliberal ideology were promoted by the U.S. in order to liquidate resources of developing countries in order to ensure the repayment of private foreign creditors.

Institutional Change, Interests, and Unintended Consequences

Recent scholarship on institutional change has focused on power distribution and the structure of institutional rules as determinants of institutional change in policymaking (see esp. Mahoney & Thelen 2010; Streeck & Thelen 2005; Clemens & Cook 1998). This perspective holds a strong emphasis on gradual, endogenous processes, in response to the critique that older theories overemphasize stasis and strong path dependence, relying on exogenous shocks or "punctuated equilibrium" models of change (Streeck & Thelen 2005). This has led to an under-theorization of contingent processes leading to major institutional transformations, rather relying on exogenous changes in the environment, or major sea changes in the endogenous political landscape. Streeck & Thelen (2005) identify a primary mechanism of institutional displacement as "defection", where actors gradually migrate to a new paradigm. This can happen through "invasion", where the new paradigm is imported into an existing institutional arrangement, or endogenously through shifts in the environment that favor existing actors who prefer a new paradigm (Streeck & Thelen 2005).

This nicely corresponds to much of the literature on the shift to neoliberal economic policy paradigms in the 1970s and 1980s. Fourcade & Babb's (2002) study of "paths" to neoliberalism traces the historical development of neoliberal economic policy in four countries, finding that this was accomplished either by existing institutional actors in response to a changing environment, or through the introduction of new actors into the policymaking apparatus. This research is useful in explaining the development of neoliberal policy, as well as paradigm shift more generally, but challenges the assumptions of truly "endogenous" institutional displacement taken on by Mahoney & Thelen (2010) and others.

The present study contributes precisely an endogenous explanation of major institutional change that we should think of in terms of power distribution. This very much validates the findings of Chorev (2010; 2007) that powerful actors may directly challenge and remake institutions in their interest. For Chorev, because institutions solidify and embody the power relations that prevailed at the moment of their creation, change may occur when the institution no longer serves the interests of powerful actors, those interests change, or when the power distribution itself changes. In this way, institutions may influence action by granting different states more or less ability to remake the institution in their interests. In this case, unilateral action by the U.S. government was allowed by its hegemonic position in the international monetary system. Such gross imbalances of power allowed for unilateral action to radically reconfigure the global economy, without real meaningful political consequence or retaliation. An important note to qualify these findings align significantly with accounts of institutional change that focus on unintended consequences, particularly Krippner's outstanding (2011) analysis of financialization in the U.S. economy. Rather than resulting from a far-reaching class project or state-led grand

design, neoliberalization proceeded as a state strategy, but only as a series of responses to problems significantly of the state's own creation.

Concluding Remarks: Democracy, Crisis, Ideology

This analysis has shown that the hegemony of finance capital in the global economy, and the dismantling of progressive developmental states through neoliberal austerity, can be traced causally to the fairly short-sighted decisions of a literal roomful of men in the U.S. Executive Branch. The most striking feature of this historical analysis is something that has been remarked on before (Gowa 1983; Block 1977), but certainly deserves renewed discussion. That is that the concentration of executive power responsible for the major shape of the global economy, its insulation from democratic oversight or accountability, and the remarkable obscurity of the subject matter and its distance from popular discourse. Of course it is no accident that such a concentration of executive power is mirrored in the concentration of private power brought about by this reorganization of global capitalism.

The most recent financial crisis raised significant alarm about the economic theory and forms of policy that allowed such a large bubble to arise in the housing market (Fligstein et al. 2017). That Alan Greenspan failed to foresee such a crash in the global economy is surprising, given that he himself was Chairman of the Council of Economic Advisors under President Ford, overseeing the development of a massive financial bubble nearly as soon as the neoliberal era began in 1971. That *surprise* was the prevailing attitude of policymakers and intellectuals in response to the 2007-2008 crisis is therefore difficult to understand, given that the U.S. Government's institution of liberal financial

markets has never failed to deliver major financial crisis. The bubble that began with the events of Chapter Four culminated in the sovereign debt crises of the 1980s, and yet financial liberalization proceeded throughout the 1990s and early 2000s. The comparison between the recent global crisis to the "crisis" that precipitated all these developments in 1971 is striking. Chapter Three showed that economic crisis was largely defined by policymakers who wished to effect major policy change without taking blame. In contrast, the most recent crisis was felt by many millions of ordinary people affected by austerity, unemployment, and of course the collapse of the housing market. And yet in this case there has been no real attempt to restrict the activity of private financial capital that has so consistently led to such crisis.

The contemporary global dynamic of financial crisis and austerity has been shown to have deep historical roots. Rather than a fundamentally ideological development, institutionalized austerity was a deliberate state-led strategy for global economic governance, based on subverting the sovereignty of developmental states to that of international financial capital and dating to the very beginning of the modern era of global financial capitalism. The transfer of public resources to private actors is the most persistent trend of the post-1971 era. This analysis argues that little progress can be made intellectually or substantively in addressing contemporary economic crisis without addressing the power of finance capital within the institutions that govern the global economy.

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